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# Masimo (MASI) Q2 2022 Earnings Call Transcript

By [Motley Fool Transcribing](#) – Aug 10, 2022 at 5:00AM

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MASI earnings call for the period ending June 30, 2022.

**Masimo** ([MASI 0.79%](#))

Q2 2022 Earnings Call

Aug 09, 2022, 4:30 p.m. ET

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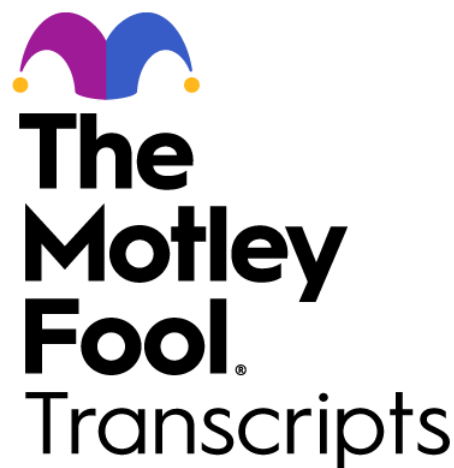


IMAGE SOURCE: THE MOTLEY FOOL.

## Prepared Remarks:

**Operator**

Good afternoon, ladies and gentlemen, and welcome to Masimo's second quarter 2022 earnings conference call. The company's press release is available at [www.masimo.com](http://www.masimo.com). [Operator instructions] I'm pleased to introduce Eli Kammerman, Masimo's vice president of business development and investor relations.

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

Thank you, and hello, everyone. Joining me today are chairman and CEO, Joe Kiani; and executive vice president and chief financial officer, Micah Young. This call will contain forward-looking statements, which reflect management's current judgment, including certain of our expectations regarding fiscal year 2022 financial performance. However, they are subject to risks and uncertainties that could cause actual results to differ materially.

Risk factors that could cause our actual results to differ materially from our projections and forecasts are discussed in detail in our periodic filings with the SEC. You will find these in the investor relations section of our website. Also, this call will include a discussion of certain financial measures that are not calculated in accordance with generally accepted accounting principles or GAAP. We generally refer to these as non-GAAP financial measures.

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In addition to GAAP results, these non-GAAP financial measures are intended to provide additional information to enable investors to assess the company's operating results in the same way management assesses such results. Management uses non-GAAP measures to budget, evaluate and measure the company's performance and sees these results as an indicator of the company's ongoing business performance. The company believes that these non-GAAP financial measures increase transparency and better reflect the underlying financial performance of the business. Reconciliation of these measures to the most directly comparable GAAP financial measures are included within the earnings release and supplementary financial information on our website.

Investors should consider all of our statements today, together with our reports filed with the SEC, including our most recent Form 10-K and 10-Q, in order to make informed investment decisions. In addition to the earnings release issued today, we have posted a quarterly earnings presentation within the investor relations section of our website to supplement the content we will be covering this afternoon. I'll now pass the call to Joe Kiani.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Eli. Good afternoon, and thank you for joining us for Masimo's second quarter 2022 earnings call. This is the first time we are reporting results that include our recently acquired consumer business after we closed the transaction in April. The new business performed very well in the quarter, with sales exceeding expectations.

We also achieved a solid rebound in the revenue growth rate for our healthcare business for the quarter, with revenues rising 17% versus the prior year period, including the boost from shipping most of the delayed first quarter orders in the second quarter. In addition, our installed base grew 7% over the past 12 months as we are experiencing strong persistent demand for our innovative technologies. As we



closed the consumer business transaction in April, we've been moving at full speed to create many exciting new consumer health products with the collaborative R&D efforts that draws expertise from both sides of our business. We now have combined teams of engineers who are working diligently to develop very exciting new products.

The long-term potential for Masimo has never been greater than it is today. Our high level of conviction about the future success of our company is reflected in the 3 million shares we repurchased in the second quarter. On a related note, I'm glad to report that our board has issued a new authorization to repurchase up to another 5 million shares. Now I'll ask Micah to review our second quarter results in more detail and provide you with an update on our 2022 financial guidance.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Thank you, Joe, and good afternoon, everyone. Before I get started, I'd like to direct you to our earnings presentation on the Masimo website, which covers much of the detail that we will be discussing today. The financial measures I will be covering today will be primarily on a non-GAAP basis unless noted otherwise. Further, I will also be referencing pro forma financial measures, which include historical results for Sound United prior to the acquisition date of April 11, 2022.

In our presentation today, we will be referring to this business as our non-healthcare segment. Our second quarter results reflect a rebound we expected in growth for our Healthcare segment as we fulfilled many of the delayed orders from the first quarter after effectively addressing the supply chain issues that have limited our shipments in Q1. The strong and persistent demand for our breakthrough technology is visible in our driver shipments for the quarter, which reached over 77,000, and exceeded our guidance of 75,000 per quarter this year. This represents our fourth consecutive quarter of roughly 75,000 units shipped.

We have now shipped nearly 2.4 million technology boards and instruments over the last 10 years. At the end of the second quarter, we estimate that our installed base has grown by 7% over our installed base at the end of second quarter of 2021. For the second quarter of 2022, we reported consolidated revenue of \$565 million, which exceeded the high end of our guidance range. On a pro forma basis for the full quarter, our consolidated revenues would have been \$572 million, representing 12% reported growth and 15% constant currency growth.

For our Healthcare segment, second quarter revenues were \$357 million, representing 17% reported growth and 19% constant currency growth. As Joe mentioned, growth was helped by shipping most of the delayed orders from the first quarter that were related to supply chain issues earlier this year. On a year-to-date basis, our healthcare revenues were \$661 million, representing 9% reported growth and 11% constant currency growth year-to-date. For our consumer non-healthcare segment, second quarter revenues were \$208 million April 11, 2022, through fiscal quarter end.

On a pro forma basis, for the full quarter, our consumer non-healthcare revenues would have been \$215 million, representing 4% reported growth and 10% constant currency growth. This business had solid growth across all regions and categories led by the premium brands of denim, Marantz and Bowers & Wilkins. The combination of strong demand with effective management of supply chain challenges produced better-than-expected sales performance during the quarter. Moving down the P&L.

For the second quarter of 2022, we reported consolidated non-GAAP gross margin of \$54.7. Our margins were adversely affected by the impact of segment mix, foreign currency headwinds and supply chain inefficiencies. For our healthcare business, second quarter non-GAAP gross margin increased 160 basis points to 66.3% compared to 64.7% in the prior year period. The year-over-year improvement was a result of favorable product mix as we derived a higher proportion of our revenues from adhesive sensors versus capital equipment.

For our consumer non-healthcare segment, second quarter non-GAAP gross margin was 34.8%. For our consolidated business, our non-GAAP operating profit increased 49% to \$107 million and represented 18.9% of total revenue. And our non-GAAP earnings per share increased 44% to reach \$1.35 per diluted share. In the second quarter, we invested \$401 million to repurchase 3 million shares of our common stock, representing over a 5% reduction of our shares outstanding.

In summary, we delivered strong performance in the second quarter with revenues, operating margins and earnings per share exceeding the high end of our guidance range. Our consumer non-healthcare segment delivered 10% constant currency growth on a pro forma basis. Our healthcare segment fulfilled most of the delayed orders, and boosted our growth for the second quarter. Further, our healthcare revenues grew 11% on a constant currency basis for the first half of the year, and we have now shipped approximately 75,000 drivers for four consecutive quarters, illustrating the strong and persistent strength in our healthcare business.

I'm happy to say that our healthcare business is thriving, and we are winning new customer accounts very consistently, while keeping virtually all of our existing accounts around the globe for our SET oximetry products. At the end of the second quarter, our contract backlog was \$1.2 billion, which represents a 30% increase over the prior year, and provides a good window of the durability for our future growth. We're seeing steady adoption of our connectivity technologies such as our Root, [Inaudible] and Patient SafetyNet across multiple hospital settings. Notably, the number of beds connected via Iris Gateway and Patient SafetyNet grew 20%, and our Root installed base increased over 30% over the prior year.

Further, our service revenues associated with our connected beds and our hospital automation platform increased by more than 20% compared to last year. Now I'd like to provide you with an update on our 2022 consolidated financial guidance which includes our two segments. Due to the acquisition and shifting macroeconomic conditions, we are providing consolidated guidance ranges for both the fourth -- th

third quarter and the full year. It is important to note that our guidance incorporates substantially increased foreign currency headwinds from the strengthening of the U.S. dollar against most major currencies. These negative currency effects will essentially flow through our income statement to adversely affect our margins and operating income. For the third quarter of 2022, we are projecting consolidated revenue of \$515 million to \$545 million. For our healthcare segment, we are projecting third quarter revenues of \$320 million to \$330 million, which incorporates \$10 million of year-over-year currency headwinds.

This reflects 9% constant currency growth at the midpoint of the range. For our non-healthcare segment, we are projecting third quarter revenues of \$195 million to \$215 million, compared to pro forma revenues of \$227 million for the third quarter of 2021. On a pro forma basis, our guidance incorporates \$23 million of year-over-year currency headwinds, implying flat constant currency growth at the midpoint of the range. Notably, this business is facing its toughest year-over-year comparison due to an exceptionally strong third quarter of 2021, which was above trend line due to new product stocking orders at a large retail customer in combination with the fulfillment of backorder products.

On a consolidated basis, we are projecting non-GAAP gross margins of approximately 53%, operating profit ranging from \$72 million to \$80 million, and earnings per share ranging from \$0.85 to \$0.97 for the third quarter. Now moving on to our updated full year 2022 financial guidance. For the full year, we are projecting consolidated revenues of \$1.985 billion to \$2.045 billion. Compared to our prior guidance provided back on May 3, this represents a net reduction of \$15 million, which is comprised of \$44 million of additional FX headwinds, offset by an increase of \$29 million due to strong sales performance.

On a pro forma basis, our guidance implies consolidated revenues of \$2.24 billion to \$2.3 billion for the full fiscal year 2022, compared to \$2.15 billion in fiscal year 2021.

Further, our pro forma consolidated revenue guidance incorporates \$100 million of year-over-year currency headwinds, flying 9% to 12% constant currency growth. For our healthcare segment, we are projecting revenues of \$1.330 billion to \$1.345 billion, which now incorporates \$30 million of year-over-year currency headwinds. Compared to our prior guidance, this represents an additional \$13 million increase in FX headwinds.

This represents -- this update reflects 10% to 11% constant currency growth over the prior year, which is in line with our prior guidance range. We are also maintaining our projection for shipments of at least 300,000 technology boards and instruments this year. For our consumer non-healthcare segment, we are projecting reported revenues of \$655 million to \$700 million from April 11, 2022, through fiscal year-end. Compared to our prior guidance, this represents an increase of \$26 million to \$31 million due to strong sales performance offset by \$31 million of additional FX headwinds.

On a pro forma basis for the full year, our guidance implies consumer non-healthcare revenues of \$913 million to \$958 million for fiscal year 2022, compared to \$909 million in fiscal year 2021. Further, our guidance incorporates \$70 million of year-over-year currency headwinds, applying 8% to 13% constant currency growth. For our consolidated business, we are projecting non-GAAP gross margin of 55%, which assumes healthcare gross margins of 65.5% and non -- consumer non-healthcare gross margins ranging from 34% to 35%. Compared to our prior guidance, this represents a reduction of 130 basis points which is comprised of 70 basis points from additional foreign currency headwinds, 35 basis points from supply chain inefficiencies and 25 basis points from segment mix.

For our consolidated business, we are projecting non-GAAP operating profit ranging from \$346 million to \$364 million. Compared to our prior guidance, this represents a net reduction of \$19 million to \$22 million. This is comprised of \$25 million of additional FX headwinds, offset by \$3 million to \$6 million of improved operational

performance. As a result, we are now projecting consolidated non-GAAP operating margins ranging from 17.4% to 17.8% for our consolidated business.

Compared to our prior guidance, this represents a 90 basis point reduction due entirely to incremental FX headwinds. Without the currency headwinds, our operating margins would have been projected in the range of 18.3% to 18.7%. Moving further down the P&L. Our non-GAAP, nonoperating expense for the consolidated business is expected to be approximately \$23 million in 2022.

This is primarily comprised of the interest expense associated with the new credit facility. We are also projecting a non-GAAP tax rate of 25.7% and weighted average shares outstanding of 55.3 million. Based on all of these assumptions, we are projecting non-GAAP EPS in the range of \$4.34 to \$4.57. Compared to our prior guidance, this represents a net reduction of \$0.12 to \$0.16, which is comprised of roughly \$0.35 of additional FX headwinds, offset by an increase of \$0.19 to \$0.23 from improved operational performance combined with share repurchases.

Without the additional FX headwinds, our non-GAAP EPS would have been projected in the range of \$4.69 to \$4.92. To summarize, we delivered strong performance for the first half of 2022 that exceeded expectations. Excluding the additional currency headwinds, we are raising our full year revenue, operating margin and EPS guidance due to our strong underlying operational performance. Further, our full year 2022 revenue guidance implies 9% to 12% constant currency growth on a pro forma basis.

For additional details on our 2022 financial guidance, please refer to today's earnings presentation within the investor relations section of the website at masimo.com. With that, I'll turn back the call to Joe.

**Joe Kiani** – *Chairman and Chief Executive Officer*

Thank you, Micah. We have moved expeditiously forward with our plans to become prominent company in the consumer health and wellness space. Our W1 biosensing,

watch is now in limited market release. We've been moving and receiving excellent feedback and expect the full market launch of the W1 to occur this quarter.

Our biosensing smartwatch, which we refer to as Freedom, will follow next year, and that watch will have a much larger feature set than the W1, including Android watch features. Our strategy to be a leader in the deployment of clinically relevant monitoring devices within the hospitals and home settings is now taking shape as we initiate the development of new products that integrate our healthcare technologies with our consumer non-healthcare technologies. These innovative products are intended for home health and wellness use, as well as hospital and healthcare use. Our mission is dedicated, to improving lives taking noninvasive monitoring to new sites and applications while improving patient outcomes and reducing the cost of care.

With that, we'll open the call to questions. Operator?

## Questions & Answers:

### **Operator**

Thank you. [Operator instructions] Our first question today is from Mike Matson with Needham & Company. Your line is open.

**Mike Matson** -- *Needham and Company -- Analyst*

Yeah, thanks for taking my question. I guess -- let's see where can I start. With the consumer strategy in the smartwatch, maybe you could talk about what you think it is about your smartwatch, the W1 or the upcoming Freedom watch, which is really going to kind of help differentiate you in the market versus some of the bigger companies out there like Apple or Samsung.

**Joe Kiani** -- *Chairman and Chief Executive Officer*



Well, during the limited marketed release phase, I'll tell you what our customers are telling us. They have never had a product that allows them to do the things they've been wanting to do. So for example, the continuous and accurate information of oxygen saturation and pulse rate, it's not been there. And whether it's used for sending patients home from hospitals, patients that are at risk that want -- that need to be monitored remotely or even athletes that use some of that information for better training and better preparing for competition, they're telling us it is different, it's unique and it's compelling.

In addition, we have some unique new parameters that have never been released in a commercial watch before for both healthcare and consumer wellness, which we're hoping to release with the launch of W1. And then as far as Freedom, I want to just tell you the things I've said before and know more because of the competitive nature of this business. But we believe we have a compelling design, we believe with the addition of the Android features and some unique features that, again, have never been made available before. We think we have a great product.

So we think we have a product that should command 100% market share, which is what you want to have, what you want for your team to feel. So the question is, do we have now the right distribution channel and the right sales force to hopefully make the most out of it. And time will tell, but we've never been better prepared, and we -- I can tell you, the whole united Masimo team is excited. We're all grateful for the efforts that they have put in to date, but we're going to have a lot of work ahead of us.

And I think it's revitalizing our team.

**Mike Matson** -- *Needham and Company* -- Analyst

OK. Great. Thanks. And then the guidance for the third quarter, particularly for EPS is -- there's a pretty big differential there versus where we were modeling things.



Is that just maybe a function of sort of the seasonality with the new consumer business kind of in the mix or something? Just -- I understand what happened with the overall kind of annual guidance and whatnot to your currency, but it just seems like there's a kind of a bigger delta there in the third quarter guidance versus consensus.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, Q3, even for our healthcare business has historically been the lightest quarter. As you know, our business is typically aided by people having procedures, which they have less of them, elective procedures in the summertime, but also the flu season, which comes in Q4 and Q1 time frame. And I think on the consumer side, a lot of business gets done in the holiday season in Q4. And so I think they're kind of the same boat.

So we don't -- there's nothing that we're alarmed about. It's just the way we see the whole year.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Mike, just to add to that, to Joe's point, their strongest quarter for the consumer or nonhealthcare segment is, of course, the fourth quarter. And there's a lot of investment that goes into the business throughout the year, preparing for that fourth quarter. So that's having some impact on the year-over-year comparison.

The other thing is FX headwinds are very significant. So if you look at it versus our prior guidance just for the third quarter alone, about 170 basis points of FX headwinds on our operating margins as well. So something to keep in mind.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. Got it. Thank you.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

And one more thing, Mike, their business is -- when you look geographically, you know how our business is, 30% of our revenues are outside the U.S. The Sound United business is about 60 -- probably about two-thirds of their business is outside the U.S. So there's definitely a heavier FX headwind coming from that business.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. Got it. Thank you.

**Operator**

The next question is from Jason Bednar with Piper Sandler. Your line is open.

**Jason Bednar** -- *Piper Sandler -- Analyst*

Hey, good afternoon. Thanks for taking the questions. Joe, I wanted to start with the recent announcement to part ways with Kevin Duffy, the prior CEO of Sound United. I can't help but ask, you indicated when you announced the transaction six months ago that retaining Sound leadership and talent was the top priority and is what you saw as the biggest risk to a successful integration or outcome from the acquisition.

Could you help us understand what changed in kind of the three months post deal that required this leadership transition? And maybe help us feel comfortable that the risk level here hasn't risen, and fill us in on what you have planned in terms of backfilling that leadership position.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Sure. Sure. Well, I think as you go through this journey and you're working side-by-side, sometimes it feels like it's a good fit and sometimes it doesn't feel like it's a good fit. And it wasn't a good fit for either Kevin or us.

We have left on amicable terms, and he has been wonderful in exit process, and has committed to helping us post his last day, which was August 5. The good news is we have a very strong team below Kevin that have really been running the business. The way that business is run, there are five, basically, presidents, these are brand presidents that were responsible for ours, the Wilkins one of them, one of them Marantz, one of them Denim, one of them Definitive Technology and other one Polk. And these -- overall, we're very happy with that team.

We also -- there's a wonderful head of engineering. There's the Chief Operating Officer that those brand leaves reported to, an incredible supply chain and operations leader. So -- and underneath them, a very strong bench. We've had a chance to meet a lot of them.

So yeah, we still feel great about the team. We obviously are going to do our best to keep everyone that we really think we need for the journey. And along the way, these things will happen, may happen, and we certainly did not anticipate it. So to be honest with you, I did not believe we would be parting ways with Kevin.

But it is what ended up happening, and we're going to be good. I'm really excited about the future. We're going to be naming a new leader to lead that team from the Sound United team, and we're just going through the process right now, and we have a lot of good candidates to choose from.

**Jason Bednar** -- *Piper Sandler -- Analyst*

All right. That's helpful. Thanks for that. And then maybe to follow-up on Mike's question, and just to maybe dig in a little bit deeper because I think this is the first time you've talked a little more openly about the mass market consumer watch.

Just any details that you're willing to give us on Freedom beyond what you disclosed there. I'm not sure if you're willing to move forward with a price point yet on that product. But also just any go-to-market activities you have planned. How you're going

to go about that? What kind of investment spend we should be prepared for as you enter full market release of W1 and the launch of Freedom? And then maybe, Micah, I'm just curious how you'd have to start thinking about modeling in contributions from something like W1 and Freedom.

Are you willing to throw out any year one or year two targets at something like \$10 million or \$20 million in revenue reasonable?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. We would love to share with you all the things that we're excited about the Freedom. But I think for the benefit of all of our shareholders, it's better that we don't. What I can tell you is Freedom will have the same bio-sensing technology as W1 with -- at minimum, the feature set that come with the Android watches that are out there and some other cool stuff.

As far as what have we been doing to prepare, as you know, our strategy has always been to provide any of our customers clinically relevant products. It becomes even more important for people that are further away from clinical oversight. So the purpose of W1 is to prove it under clinical oversight, hospital-to-home environment, and it's a very clinical selling process, which we have nearly 1,000 salespeople that will be doing that for us. And then as we get to Freedom, that's the product that we are going to need to help from the Sound United team that we've invested quite a bit to acquire and to hopefully motivate and keep going.

It's a phenomenal number of people that have spent some of them decades doing this, but before them, their predecessor -- I can't say the word anymore. But the previous team before them, 50 to 100 years of time have built this incredible distribution channel that's 20,000 distribution points strong. And of course, we're planning to do additional things as well. I think all of these are -- have been modeled.

We look forward to sharing as much of it as we can with you at the Investor Day meeting in December. Micah, do you want to add anything to that?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Jason, I think as you know, we're always thoughtful and prudent with our guidance. We're still learning a lot about how we're going to commercialize some of these new consumer health products, sizing the markets and also the target consumers for those products. So we don't want to get ahead of ourselves there.

The good thing is, is we don't have to. I mean the business is growing double digits. And we've got a very strong business today. So we're going to be thoughtful before we start to bring that into our guidance as we move forward into next year.

**Jason Bednar** -- *Piper Sandler -- Analyst*

So -- sorry, I know it's going to be small, but just -- is it safe to assume that whatever you're assuming for W1 is baked into this year's guidance with respect to the full market release?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, just from a practice perspective, we've learned the hard way not to put anything in our guidance until the product is released. So, so far, the guidance we've given you does not have the W1 revenues that hopefully will come, except for whatever we have received in a limited market release period.

**Jason Bednar** -- *Piper Sandler -- Analyst*

OK. Understood. Thank you.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you.

**Operator**

The next question is from Jayson Bedford with Raymond James. Your line is open.

**Jayson Bedford** -- *Raymond James -- Analyst*

Good afternoon. Can you hear me OK?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yes.

**Jayson Bedford** -- *Raymond James -- Analyst*

Perfect. So maybe just to follow along the last line of questions, and then I have a question for Micah. The full market release of W1, what does that entail? Meaning, is this a global launch? And I assume the sale will start in a hospital setting? And if so, how will the logistics and economics of this work?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes. It is going to be a global launch. We're direct in about 40 countries, and we have distribution in another 90-plus countries. So it will be a global launch.

As far as -- there's two paths with W1. We are submitting our FDA 510(k) for that product that will be for hospital and clinical use, as well as we're going to be targeting

prosumers. These are -- actually, these are people who want to be fit, these maybe people that are concerned about their health. They may have COPD.

They may have heart conditions that they just want to monitor themselves. So those will be our targets. And we plan to augment our sales force with e-commerce, both from Masimo, as well as potential partners that will join. And we are looking at partnering with some organizations that have a healthcare focus to consumers that we may join forces together to further the availability of W1 for as many people that want to take advantage of it.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK. Thanks, Joe. That's helpful. Micah, just on the healthcare business in 2Q, but recall 1Q was about \$25 million short because of the supply issues.

Is that how we should view the 2Q overage? I'm just trying to get at an underlying growth rate? And if there's any comment between kind of drivers and consumers?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Great question. So the way I look at it internally here is -- I look at it year-to-date. Year-to-date, we're growing 11% on a constant currency basis.

And that really takes into account the timing of all those shipments. It's really hard to parse it out and see what each quarter would have grown. But if you look at year-to-date, we grew 11% constant currency. That's how we're viewing the strength of the business right now.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK. Thank you.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

You're welcome.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you. Thanks for joining.

**Operator**

The next question is from Rick Wise with Stifel. Your line is open.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Good afternoon. Hi, Joe. Hi, Micah. I'll start with the healthcare business.

There's been a great deal of just broad-based concern, not just specific to Masimo, about the capital environment, hospital, financial health. And I mean -- gosh, it seems like you had an excellent quarter, and backlog strong, etc., etc. Are you concerned at all about the capital environment? Are you concerned about the pace of new spending or the timing of new spending? Just at a high level, I'm wondering if you're seeing anything that we should be sensitive to?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, our healthcare business has never been a capital-intensive business. It's really been technology as a service model, if you will. And we purposely have done that. It doesn't mean we don't have capital revenue.

We do have a small amount of capital revenue. So of course, any reduction in that will reduce that, but that's a minority of our revenue. So we're not greatly concerned about that. But obviously, at the same time, we're all in the same boat, and we like to see our OEM customers drive, and with their capital sales.

And so all in all, we're good, but we hope to see things improve for them.



**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Nothing unusual. Good. And turning to gross margins. Micah, maybe you could expand on your comments there.

I mean you spelled out very clearly the pressures that FX and supply chain are having. But I guess two questions. One, what's next? And what steps are you taking to try to particularly -- can't do much about currency, but what can you do about supply chain and sourcing and -- is that going to get -- what's your expectation? Things get stayed the same or gradually get better? And separate but related on the Sound United gross margins. How do we think about this going forward? Do we need to get the watch launch to get margins up? I'm sure you're not satisfied with margins in the current range.

How do we think about the second half, and the outlook for next year and beyond? Thank you.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Rick, great question. So as I mentioned earlier in prepared remarks, we've got -- we're facing about 130 basis points of total headwinds, half of that being FX, or more than half. If you look at our underlying operational margins, down 60 basis points on our -- from prior guidance, about half of that is segment mix and the other half is some of these supply chain inefficiencies.

I mean every company right now is facing supply chain challenges. I think some of them -- I still believe there's a lot of -- these challenges are transitory. And I think we're going to be facing them for the back half of this year, maybe the first part of next year. But a lot of it has to do with just -- there's not a consistent -- when you look at vendors and everything, there's not a consistent flow of components and raw materials, which creates a lot of inefficiencies in our production process because we're not only hav'

to expedite the freight on those components coming in, but then it creates inefficiencies in our manufacturing lines because we're waiting on those components.

And then once we get them through the manufacturing line, we have to expedite them to our customers to make sure we are meeting our customers' needs, and that's the most important thing for us. So it's a challenging environment. I can't predict when it's going to get better, but I would think that we're probably seeing the worst. And from here, hopefully, it does get better as we start to move into next year.

I think that's going to give us great opportunities to drive more improvements in our gross margins back over time, but we just got to navigate through this. And the team has done a great job. We've validated multiple vendors now. I think it's woken up a lot of companies out there who are focused on just pure efficiency going to trying to get as much volume with one vendor, and it's helped us to really distribute some of that production and some of our vendor base, and we're in a better spot.

Plus we're building inventories, safety stock. You are seeing that investment coming through our financials. But I think we're going to be in a better spot moving forward to make sure that we're meeting those needs of the customers and putting them first.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. Maybe I'll add a couple of things. On the hospital side -- hospitals are having a tough time. They're having to bring in traveling nurses, paying them \$175 an hour.

They're seeing a lot of companies raise the prices. So we have taken the approach of not doing that. We have not put in on the healthcare side, the extra cost, the inflation that we're all facing, and hoping that it will be temporary and that we can help our customers at a time where they need help. On the -- but if it continues and if it sticks, then we'll have to adjust our prices, which we have held back for two years now.

On the consumer side, I don't believe we should be in any business that has that lower margin. I think when you make incredibly valuable products like Bowers & Wilkins, Marantz and these brands do. I think they should be getting a premium that will improve the margins. Now they have been raising their prices to adjust for the increased costs that they've been seeing both in COGS and shipments, but our plan is to work with them to improve their margin greatly.

But you said it, Rick, we did not buy Sound United only because they make great audio products. We bought them because of what we thought we could do with them with Freedom and other consumer healthcare products. That will model a lot after our healthcare business, which will be technology as a service. So they will -- we anticipate not only good margins on the capital in that world, but we anticipate recurring revenues from a service model that we think will be useful for our customers.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

That's very helpful. Thank you. If I could just follow up on that just briefly. Joe, when the deal was announced, I had the sense that you and the team were going to -- I don't know whether that was an Analyst Day or at some point, we get a deeper sense perspective on your long-term thinking.

We're getting some bits and pieces tonight for sure. When do you think we might hear from you about your longer-term vision? Yes, I'm sure that's part of the Freedom and the W1 launch. But when do you -- when should we expect to hear from you in that more fulsome manner? Thank you.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Sure. Rick, we would love nothing more than to get you inside our head because I think you'll find it hopefully, interesting but exciting. But we have to be cautious not to let our competitors get inside our head as well. So long story short, I think you're going to a good, healthy dose of what we're thinking this December at Investor Day.

Have we do we have a date yet?

**Micah Young** *Executive Vice President and Chief Financial Officer*

December 13

**Joe Kiani** *Chairman and Chief Executive Officer*

December 13 We're going to drag you out of anywhere it's raining or snowing and bring you to California Hopefully, you'll come And then I think when we launch Freedom, obviously, we'll share more

And then there's a couple of really what I think will be breakthrough products And when they're out, I think then you'll see what we had in mind But the full story might take a couple of years before it comes out But we'll try to share with you as much as we can December 13

**Rick Wise** *Stifel Financial Corp Analyst*

Thank you, Joe

**Operator**

The next question is from Marie Thibault with BTIG Your line is open

**Marie Thibault** *BTIG Analyst*

Hi, good afternoon Thanks for taking the questions, Joe and Micah I wanted to follow up here on some comments, Joe, that you just made about the consumer side of the business, and those premium priced products We certainly heard from some other consumer tech companies this quarter that with consumer confidence at a low, there is concern about the discretionary spending

Would love to get your thoughts, maybe what you're hearing from your brand presidents in terms of customer appetite for these great Sound United products?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. Well, we, first of all, believe most of the Sound United products are geared toward very affluent, wealthy people, which are for better or worse usually more shielded from some of the weakness in economies when they occur. In addition, we've met with them, had a really productive meeting where we looked at the what-if things to slow down a lot more. Because certainly, you're seeing it in the low-end products in the consumer product lines, that are out there from TVs to soundbars and things like that.

And still, the forecast that we've given you is in line with the worst case of what they could project. So I -- while I don't have historical data, like I do for the healthcare business, I've been running here for over 30 years, to give me the confidence on everything that has to do with Sound United. I feel that theoretically, they are in the high-end world. So that part makes sense to me.

And my belief in the team and the way they thought about it, it seemed like good critical thinking and a lot of conservative modeling. So yeah, we think we should be OK.

**Marie Thibault** -- *BTIG -- Analyst*

OK. That's very helpful. Thanks for that. And then on the Investor Day, I realize it's been pushed out a couple of months from what we'd hoped in September.

What was sort of the thinking behind that? What is it that, I guess, led to some of that delay? And would we expect to hear more on the hearing aid product as well in December? Just any updates on that product category.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. We pushed it out one, you can imagine the effort that it's taken for Micah and his team to consolidate the financials for the company that was not public, and wasn't really being run to go public. So I think we don't want to break the horse that was giving us the ride. But then secondly, we know you guys want more, and we feel like by December, hopefully, we'll be able to share more.

And yes, we definitely will share with you information about the hearables.

**Marie Thibault** -- *BTIG -- Analyst*

OK. Perfect. Looking forward to it. Thanks for taking the questions.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thanks, Marie.

**Operator**

[Operator instructions] The next question is from Michael Polark with Wolfe Research. Your line is open.

**Mike Polark** -- *Wolfe Research -- Analyst*

Good afternoon. Thank you for taking the questions. Maybe I'll start on just capital deployment cash flow question. I mean the balance sheet has been materially altered in just six months here post Sound United, and now a hefty buyback.

I'm doing math, \$750 million net cash entering the year, now just about \$700 million of net debt. I guess curious for updated thoughts on your comfort level here with this kind of different profile. Number one, any kind of target leverage metrics you might want to toss out about where this is comfortable on the high end or where you want it to go over the midterm? And then just related as kind of a lot of moving pieces with Sour

United coming in and curious where you think kind of durable free cash flow is for the enterprise over the next year or two?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Mike, this is Micah. So if you look at -- I'll just I'll go through those questions and I'll step through those. So in terms of our leverage, I've always been comfortable with three times or less, in that zone.

Our net leverage is under one and a half times. We generate strong cash flow as a company. So it's under one and a half times. We're getting a very good interest rate on the debt.

We're in a good position there to service that debt with our cash flow and then even invest back even more in the business. And so that's number one. As we look at capital deployment, the reason -- we have a lot of confidence in the long-term growth of this business, and that's why we're reinvesting in our shares for Masimo. So that's something that we looked at it, and we think that reinvesting back into the company and our shares was a great capital deployment for us.

And in terms of cash flow, the softness we're seeing in cash flow is, number one, we've had some acquisition-related costs that are transaction-related. So we had to pay those in the first half that suppressed our free cash flow. But if you pull that out, we still are seeing good strong cash flow that we expect for this year. The other thing is we're investing in inventory.

If you saw what happened in Q1, it's something we don't want to repeat, so we're trying to make sure we got sufficient safety stock levels. And I think that's very prudent for the company to do and make sure that we're putting our customers first, as I mentioned before. So hopefully, that answered some of those questions, and I'm open for any follow-ups you have on that.

**Mike Polark** -- *Wolfe Research -- Analyst*

My follow-up topic was just a timeline and upcoming milestones for the legal proceedings with Apple. Any major events you expect over the next three to six months before year-end that we should be monitoring?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes. We had our ITC case against Apple, and we anticipate a ruling by our judge by September 15. And then by January, the commission will make their decision and assuming they both go forward with joining the infringing Apple Watch, we should have something in place by March, April next year, subject to presidential review. And then our patent case -- excuse me, our patent case has been stayed in the federal court but our trade secret case will happen in March, and there will be a jury case with Judge Selna.

And so we expect some time in April, we'll have a decision there. I was in the ITC case for about half of it. For about half of it, I was asked to leave because of Apple confidential documents that were going to be disclosed. The portion I was in, I felt very good about our case.

And from what I understand, the documents that I couldn't see were not favorable to Apple. So you never know what's going to happen, but we feel good about it. And hopefully we'll have some news September 15.

**Mike Polark** -- *Wolfe Research -- Analyst*

Appreciate that. If I could sneak one more topic in. Is there an update on Opioid SafetyNet? I feel like we were talking about it every quarter. There is a pathway in Europe commercially.



There was a regulatory pathway here in the U.S., and I haven't heard an update there for at least a couple of quarters. So if there's any additional color on where that effort stands that you can provide? I'd appreciate it. Thanks for taking the questions.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Absolutely. Yeah. We're pushing part around the world with SafetyNet alert, mainly made for opioid. It's been going well.

In the U.S., we're waiting. We're waiting for FDA clearance. I believe we've given FDA everything it's requested. So we're -- again, if you remember, this is a product that the FDA chose as one of eight products out of over 250 companies that could help the opioid epidemic, and gave it a breakthrough status as well.

So I know the FDA is also eager to release the product, hopefully soon. We didn't report on it because I think we're getting tired of waiting too. But we're looking forward to the launch. And if anything, over the last two, three years, the problem has gotten worse.

Last 12 months, 100,000 people in the U.S. who were killed due to overdose. 20% of those, we believe, were due to prescription opioids. So we believe we have the right solution.

We believe it will save -- if it's deployed it can save tens of thousands of lives a year. So we'll let you know as soon as we get our clearance. I think that's our last question. So thank you all for joining us.

I hope you all enjoy the rest of your summer, and we look forward to the next quarterly call and seeing you all on December 13. Bye-bye.

**Operator**

[Operator signoff]

**Duration: 0 minutes**

## Call participants:

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

**Joe Kiani** -- *Chairman and Chief Executive Officer*

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

**Mike Matson** -- *Needham and Company -- Analyst*

**Jason Bednar** -- *Piper Sandler -- Analyst*

**Jayson Bedford** -- *Raymond James -- Analyst*

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

**Marie Thibault** -- *BTIG -- Analyst*

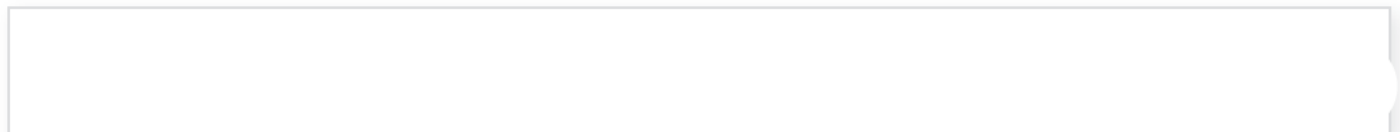
**Mike Polark** -- *Wolfe Research -- Analyst*

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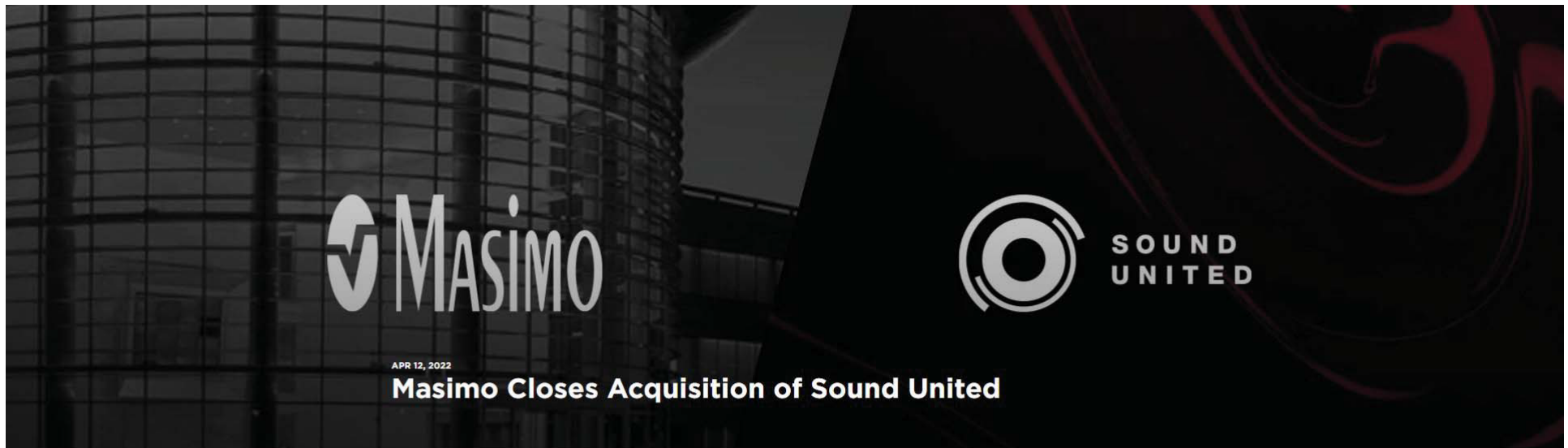
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# **EXHIBIT E**



*Leading Developer of Premium Consumer Sound and Home Integration Technologies Becomes Masimo Subsidiary*

**Irvine, California – April 12, 2022** — Masimo (NASDAQ: MASI) today announced that it has successfully completed the previously announced acquisition of Sound United, a leading consumer technology company and owner of multiple premium audio and home entertainment brands. Sound United will operate as a division of Masimo, under its existing leadership, from its headquarters in Carlsbad, California. Sound United operates iconic consumer brands including Bowers & Wilkins®, Denon®, Polk Audio®, Marantz®, Definitive Technology®, Classé®, and Boston Acoustics®. Sold worldwide, these brands are linked by a commitment to the highest production standards and a focus on unparalleled quality and performance.

Joe Kiani, Founder and CEO of Masimo, said, “We are thrilled to add Sound United’s premium technology, established consumer channels, and well-known brands to Masimo’s broad portfolio of hospital and home medical technology solutions. We believe Masimo’s expertise in advanced signal processing, biosensing, and photonics technologies combined with Sound United’s audio and home automation technologies will bring about natural and yet non-intuitive solutions to people around the globe in home and in hospitals. Masimo will leverage Sound United’s expertise across consumer channels to accelerate distribution of the combined company’s expanding portfolio of consumer-facing healthcare products. We welcome the incredibly talented and dedicated teams at Bowers & Wilkins, Denon, Marantz, Polk Audio, HEOS, Definitive Technology, Classé, and Boston Acoustics to Masimo.”

“While we continue to identify growth opportunities by leveraging the strengths and resources from both companies, we want to express our continued commitment to our loyal customers who rely on the Sound United brands to continue driving their businesses with best-in-class solutions and forward-thinking innovation,” said Kevin Duffy, CEO of Sound United. “With our track record of industry-first innovation, superior manufacturing, and a global distribution network, we are confident that Sound United is the ideal partner for Masimo as they transform and enrich the consumer healthcare experience.”

Financial guidance associated with the Sound United acquisition will be provided during Masimo’s first quarter earnings release on Tuesday, May 3, 2022.



#### About Masimo

Masimo (NASDAQ: MAS) is a global medical technology company that develops and produces a wide array of industry-leading monitoring technologies, including innovative measurements, sensors, patient monitors, and automation and connectivity solutions. Our mission is to improve patient outcomes and reduce the cost of care. Masimo SET® Measure-through Motion and Low Perfusion™ pulse oximetry, introduced in 1995, has been shown in over 100 independent and objective studies to outperform other pulse oximetry technologies.<sup>1</sup> Masimo SET® has also been shown to help clinicians reduce severe retinopathy of prematurity in neonates,<sup>2</sup> improve CCHD screening in newborns,<sup>3</sup> and, when used for continuous monitoring with Masimo Patient SafetyNet™ in post-surgical wards, reduce rapid response team activations, ICU transfers, and costs.<sup>4-7</sup> Masimo SET® is estimated to be used on more than 200 million patients in leading hospitals and other healthcare settings around the world,<sup>8</sup> and is the primary pulse oximetry at 9 of the top 10 hospitals as ranked in the 2021-22 U.S. News and World Report Best Hospitals Honor Roll.<sup>9</sup> Masimo continues to refine SET® and in 2018, announced that SpO<sub>2</sub> accuracy on RD SET® sensors during conditions of motion has been significantly improved, providing clinicians with even greater confidence that the SpO<sub>2</sub> values they rely on accurately reflect a patient's physiological status. In 2005, Masimo introduced rainbow® Pulse CO-Oximetry technology, allowing noninvasive and continuous monitoring of blood constituents that previously could only be measured invasively, including total hemoglobin (SpHb®), oxygen content (SpOC™), carboxyhemoglobin (SpCO®), methemoglobin (SpMet®), Pleth Variability Index (PVi®), RPi™ (rainbow® PVi), and Oxygen Reserve Index (ORi™). In 2013, Masimo introduced the Root® Patient Monitoring and Connectivity Platform, built from the ground up to be as flexible and expandable as possible to facilitate the addition of other Masimo and third-party monitoring technologies; key Masimo additions include Next Generation SedLine® Brain Function Monitoring, O3® Regional Oximetry, and ISA™ Capnography with NomoLine® sampling lines. Masimo's family of continuous and spot-check monitoring Pulse CO-Oximeters® includes devices designed for use in a variety of clinical and non-clinical scenarios, including tetherless, wearable technology, such as Radius-7® and Radius PPG™, portable devices like Rad-67®, fingertip pulse oximeters like MightySat® Rx, and devices available for use both in the hospital and at home, such as Rad-97®. Masimo hospital automation and connectivity solutions are centered around the Masimo Hospital Automation™ platform, and include Iris® Gateway, iSirona™, Patient SafetyNet, Replica®, Halo ION™, UniView®, UniView :60™, and Masimo SafetyNet®. Additional information about Masimo and its products may be found at [www.masimo.com](http://www.masimo.com). Published clinical studies on Masimo products can be found at [www.masimo.com/evidence/featured-studies/feature/](http://www.masimo.com/evidence/featured-studies/feature/).

ORi and RPi have not received FDA 510(k) clearance and are not available for sale in the United States. The use of the trademark Patient SafetyNet is under license from University HealthSystem Consortium.

#### References

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**About Sound United**

Sound United, a Masimo company, was founded in 2012 with a simple mission – to bring joy to the world through sound. Today, we are one of the world's largest portfolio audio companies and home to several legendary audio brands—Denon®, Marantz®, Bowers and Wilkins, Polk Audio, Classé, Definitive Technology, HEOS, and Boston Acoustics®. Each brand boasts its own philosophy and unique approach to bringing home entertainment to life.

With centuries of collective experience, Sound United oversees the design and manufacture of a diverse array of premium audio products, including loudspeakers, sound bars, AV receivers, wireless speakers, amplifiers, turntables, and headphones. We create distinct and memorable listening experiences for a wide range of consumers in more than 130 countries. For more information on Sound United and our mission, please visit [www.soundunited.com](http://www.soundunited.com).

To learn more about Sound United and its brands, visit [www.soundunited.com](http://www.soundunited.com).

**Forward-Looking Statements**

This press release includes forward-looking statements as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, in connection with the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations about future events affecting us and are subject to risks and uncertainties, all of which are difficult to predict and many of which are beyond our control and could cause our actual results to differ materially and adversely from those expressed in our forward-looking statements as a result of various risk factors, including, but not limited to: risks related to our acquisition of Sound United; risks related to our assumptions regarding the repeatability of clinical results; risks related to our belief that Masimo's unique noninvasive measurement technologies, contribute to positive clinical outcomes and patient safety; risks that the researchers' conclusions and findings may be inaccurate; risks related to our belief that Masimo noninvasive medical breakthroughs provide cost-effective solutions and unique advantages; risks related to COVID-19; as well as other factors discussed in the "Risk Factors" section of our most recent reports filed with the Securities and Exchange Commission ("SEC"), which may be obtained for free at the SEC's website at [www.sec.gov](http://www.sec.gov). Although we believe that the expectations reflected in our forward-looking statements are reasonable, we do not know whether our expectations will prove correct. All forward-looking statements included in this press release are expressly qualified in their entirety by the foregoing cautionary statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of today's date. We do not undertake any obligation to update, amend or clarify these statements or the "Risk Factors" contained in our most recent reports filed with the SEC, whether as a result of new information, future events or otherwise, except as may be required under the applicable securities laws.

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# **EXHIBIT F**

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## Masimo completes acquisition of Sound United

APRIL 12, 2022 BY SEAN WHOOLEY

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Masimo (Nasdaq:MASI) announced today that it completed its previously announced acquisition of Sound United.

Irvine, California-based Masimo announced in February that it would spend \$1.025 billion to acquire Viper Holdings, the parent company of Sound United. [Wall Street's response saw Masimo's stock drop by 35%](#), with analysts unsure about the consumer tech acquisition, saying it left them with "more questions than answers."


However, [the market quickly reconsidered its position on the acquisition](#), as Masimo's stock climbed over the following days, with Needham analyst Mike Matson saying the sell-off was "overdone" and the deal is expected to be highly accretive to Masimo's earnings per share.

In response to today's announcement, BTIG analyst Marie Thibault wrote that investors' focus revolves around "gaining clarity around the combination," including the key areas of product innovation, the investment needed and how soon new products can drive growth.


Additionally, analysts believe investors would like to know how supply chain issues could impact performance as they await more details before determining Masimo's position. Masimo said in a news release that financial guidance associated with the acquisition will be provided during the company's first-quarter earnings release on May 3.

Shares of Masimo were up 0.7% at \$140.67 per share in mid-morning trading today.

"We are thrilled to add Sound United's premium technology, established consumer channels, and well-known brands to Masimo's broad portfolio of hospital and home medical technology solutions," Masimo founder and CEO Joe Kiani [said](#) in the release. "We believe Masimo's expertise in advanced signal processing, biosensing, and photonics technologies combined



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### MEDTECH 100 INDEX



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th Sound United's audio and home automation technologies will bring about natural and yet non-intuitive solutions to people around the globe in home and in hospitals. Masimo will leverage Sound United's expertise across consumer channels to accelerate distribution of the combined company's expanding portfolio of consumer-facing healthcare products."

In connection with the acquisition, Masimo entered into a credit facility for an unsecured term loan of \$300 million and \$500 million in unsecured revolving commitments with an option (subject to certain conditions) for Masimo to increase the aggregate borrowing capacity by an additional \$400 million, plus additional unlimited amounts if certain incurrence tests are met.

The facility also provides a sublimit of up to \$50 million for the issuance of letters of credit. All unpaid principal under the credit facility will become due and payable on April 11, 2027. Proceeds from the term loan have been used to consummate the merger, while proceeds from the revolving commitments are expected to be used for general corporate, capital investment and working capital needs.

The acquisition will result in Sound United operating as a division of Masimo under its existing leadership, with CEO Kevin Duffy leading the unit as president of Masimo's consumer division.

Sound United will continue at its headquarters in Carlsbad, California, as it operates consumer brands including Bowers & Wilkins, Denon, Polk Audio, Marantz, Definitive Technology, Classé and Boston Acoustics.

"While we continue to identify growth opportunities by leveraging the strengths and resources from both companies, we want to express our continued commitment to our loyal customers who rely on the Sound United brands to continue driving their businesses with best-in-class solutions and forward-thinking innovation," Duffy said. "With our track record of industry-first innovation, superior manufacturing, and a global distribution network, we are confident that Sound United is the ideal partner for Masimo as they transform and enrich the consumer healthcare experience."

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› [How Medtronic and Avail will accelerate stroke care innovation](#)

Medtronic Neurovascular and Avail Medsystems have signed an agreement to use Avail's operating room consoles during stroke procedures, the leaders of both businesses told Medical Design & Outsourcing this week. Medtronic will pay to place several hundred Avail consoles around the U.S. in the next few years. The deal enables the medtech giant to connect... [..]

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Johnson Matthey today opened a brand new nitinol facility in Mexicali, Mexico for its Medical Device Components business. The facility has 40,000 square feet of manufacturing space for nitinol sheet and tubing, double the capacity of the company's previous location in San Jose, California. The newly constructed plant in Mexicali is the world's only low-cost-country... [..]

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Five startup founders are preparing their pitches for the gBETA Medtech Black Founders Accelerator's virtual showcase next week. Their companies are the eighth cohort for the gBETA Medtech Accelerator, which focused on Black founders for its fall 2022 program. The five companies received \$10,000 grants, plus coaching, mentorship and other support over the course of... [..]

› [Understanding the design of electromagnetic navigation technology](#)

As electromagnetic navigation becomes the top choice for surgical navigation, sensor and design considerations are critical. David Bosch, Intricon Since its inception in the 1990s to widespread adoption by the late 2000s, electromagnetic navigation (EMN) has emerged as the clear choice for surgical navigation and has been widely adopted in the fields of interventional bronchoscopy... [..]

› [Mapping epileptic seizures with new brain activity models](#)

Johns Hopkins University researchers have developed new models for mapping epileptic seizures. The models could help surgeons identify the precise location in the brain where the seizures originate (called "epileptogenic zones") to improve treatment — and decide whether an operation is worth the risk. "We want surgeries to go well, but we also want to... [..]

› [Ekso Bionics buys Indego exoskeletons from Parker Hannifin](#)

The Indego exoskeleton deal includes all of Parker's Human Motion and Control business and gives Ekso a new development partner. Ekso Bionics Holdings (Nasdaq:EKSO) has purchased the Indego exoskeleton line and the rest of Parker Hannifin's Human Motion and Control (HMC) business unit. The \$10 million deal includes the planned development of robotic-assisted orthotic and... [..]

› [Synopsys updates Simpleware image processing software](#)

Synopsys has announced version U-2022.12 of its Simpleware image processing software, which is used in life science and advanced materials and manufacturing applications. The Mountain View, California-based company said the new version allows users to easily segment CMF CT scans using Simpleware AS Ortho/CMF, reduce the effort of placing connectors for preparing 3D prints, and... [..]

› [The neuroscience of play: What medical device companies can learn from video games](#)

Device makers can accelerate the development of new skills and treatments for physicians by harnessing the power of video games. Sam Glassenberg, Level Ex Over the past three decades, a growing cohort of economists, psychologists, and designers have been successfully distilling the optimal neurochemical recipe for accelerating product adoption and driving skill development. They've been... [..]

› [Philips seeks new superconducting materials for helium-free MRI scanners](#)  
 Philips is looking for superconducting materials that will allow the company to design MRI scanners without helium cooling through a new partnership agreement. Their findings could make MRI scanners smaller, lighter and less expensive to manufacture and operate, increasing patient accessibility. With the world's limited amount of helium dwindling, suppliers are rationing while medical... [..]

› [How Schurter helped Biotronik develop the Renamic Neo](#)

Biotronik won FDA approval for its Renamic Neo programmer for implanted cardiac rhythm management devices this year, thanks to some help from an electronic components supplier. The Lake Oswego, Oregon-based device developer designed the Renamic Neo for implantable cardioverter defibrillators, pacemakers and implantable cardiac monitors. The control unit wirelessly communicates with the implanted device and... [..]

› [Millstone Medical Outsourcing acquires Ethide Labs](#)

Millstone Medical Outsourcing announced today that it completed its acquisition of regulatory testing services provider Ethide Labs. Fall River, Massachusetts-based Millstone completed its acquisition on Nov. 14, 2022. West Warwick, Rhode Island-based Ethide Labs brings more than 60 years of experience in regulatory testing services for the medical device and pharmaceutical industries. The certified laboratory... [..]

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# **EXHIBIT G**

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# Masimo (MASI) Q1 2022 Earnings Call Transcript

By [Motley Fool Transcribing](#) – May 4, 2022 at 12:30AM

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MASI earnings call for the period ending March 31, 2022.

**Masimo** ([MASI](#) -0.09%)

Q1 2022 Earnings Call

May 03, 2022, 4:30 p.m. ET

## Contents:

- Prepared Remarks
- Questions and Answers
- Call Participants

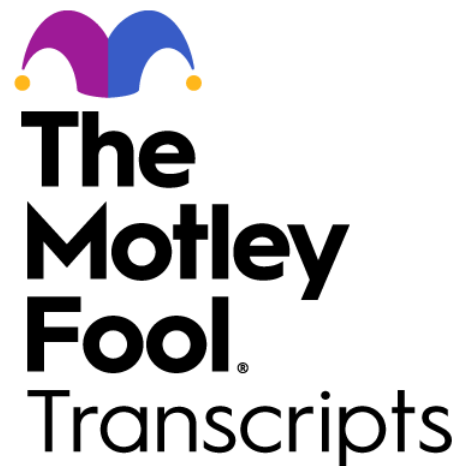


IMAGE SOURCE: THE MOTLEY FOOL.

## Prepared Remarks:

**Operator**



Good afternoon, ladies and gentlemen, and welcome to Masimo's first quarter 2022 earnings conference call. The company's press release is available at [www.masimo.com](http://www.masimo.com). [Operator instructions] I'm pleased to introduce Eli Kammerman, Masimo's vice president of business development and investor relations. Please go ahead.

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

Thank you, and good afternoon, everyone. Joining me today are chairman and CEO, Joe Kiani; and executive vice president and chief financial officer, Micah Young. This call will contain forward-looking statements, which reflect management's current judgment, including certain of our expectations regarding fiscal year 2022 financial performance. However, they are subject to risks and uncertainties that could cause actual results to differ materially.

Risk factors that could cause our actual results to differ materially from our projections and forecasts are discussed in detail in our periodic filings with the SEC. You will find these in the investor relations section of our website. Also, this call will include a discussion of certain financial measures that are not calculated in accordance with generally accepted accounting principles or GAAP. We generally refer to these as non-GAAP financial measures.

**10 stocks we like better than Masimo**

When our award-winning analyst team has a stock tip, it can pay to listen. After all, the newsletter they have run for over a decade, *Motley Fool Stock Advisor*, has tripled the market.\*

They just revealed what they believe are the [ten best stocks](#) for investors to buy right now... and Masimo wasn't one of them! That's right -- they think these 10 stocks are even better buys.

[See the 10 stocks](#)



\*Stock Advisor returns as of April 7, 2022

In addition to GAAP results, these non-GAAP financial measures are intended to provide additional information to enable investors to assess the company's operating results in the same way management assesses such results. Management uses non-GAAP measures to budget, evaluate and measure the company's performance and sees these results as an indicator of the company's ongoing business performance. The company believes that these non-GAAP financial measures increase transparency and better reflect the underlying financial performance of the business. Reconciliation of these measures to the most directly comparable GAAP financial measures are included within the earnings release and supplementary financial information on our website.

Investors should consider all of our statements today, together with our reports filed with the SEC, including our most recent Form 10-K and 10-Q in order to make informed investment decisions. In addition to the earnings release issued today, we have posted a quarterly earnings presentation within the investor relations section of our website to supplement the content we will be covering this afternoon. I'll now pass the call to Joe Kiani.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Eli. Good afternoon, and thank you for joining us for Masimo's first quarter 2022 earnings call. This quarter was an anomaly from the perspective of reported revenue and earnings due to supply chain problems. I'm happy to report that as of today, we have manufactured almost all of the backordered products from the first quarter.

And barring any shipment delays that are out of our control, we are on track to meet the second quarter revenue expectations. We believe we have addressed the supply chain challenges we saw in the first quarter related to component shortages and limited labor availability at our manufacturing facilities. In addition, we have

significantly increased our manufacturing output, which should allow us to not only meet our expected revenues but simultaneously build up a sufficient level of safety stock. I'm happy to report that hospitals are steadily returning to normal practices and procedure volumes.

With hospitalization concerns about the pandemic easing, we are seeing a rebound in elective surgeries and seeing better access for our sales force within hospitals. Our installed base grew by 7% in the past 12 months due to strong and consistent customer demand for our technologies. There has been no slowdown in demand as we continue to win new contracts at a fast pace while maintaining the strong renewal rate with our existing customers. While our revenues rose only modestly in the first quarter due to the supply chain issues, we still expect to deliver double-digit constant currency revenue growth for our healthcare business this year.

2022 will be an exciting year for Masimo as we extend our reach into some very large new markets in consumer health and wellness as well as into telehealth and telemedicine. In April, we closed the Sound United transaction ahead of schedule. The team at Sound United will be invaluable for enabling successful launches of our upcoming products over the next 12 months and beyond. The company also brings us a group of highly regarded brands and technologies that we can leverage to create some very innovative products that combine Masimo technologies with theirs.

Sound United has built a broad network of global distribution channels that will serve us well as we introduce products such as our biosensing watch and augmented hearing devices, among many other planned innovations. We are excited about the potential of our combined businesses to capitalize on the growing trend of moving care from hospital to home. I'll discuss more about our outlook and strategic plans later in the call. Now I will ask Micah to review our first quarter results in more detail and provide you with an update on our 2022 financial guidance.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Thank you, Joe, and good afternoon, everyone. Before I get started, I want to direct you to the earnings presentation on the Masimo website, which covers much of the detail that we will be discussing today. Our first quarter results illustrate our ability to increase earnings even in the face of supply chain issues that limited our shipments and sales growth. The strength in the demand from our customers can be seen in our driver shipments, which met our expectations by reaching 75,700 as we had our third consecutive quarter of driver shipments of approximately 75,000 units.

Increased demand for patient monitoring in hospitals has been durable as these results demonstrate. We have now shipped over 2.3 million technology boards and instruments over the last 10 years. For the first quarter of 2022, we reported revenue of \$304 million, representing 2% reported growth and 3% constant currency growth. Our results were adversely affected by certain supply chain issues, which we have addressed.

Had this not occurred, we would have exceeded our revenue and earnings expectations for the quarter due to our continued strong customer demand. Moving down the P&L. Our first quarter 2022 non-GAAP gross margin increased 140 basis points to 67.5% compared to 66.1% in the prior-year period. Our gross margin improvement was driven by favorable product mix as we derived a higher proportion of our revenues from adhesive sensors compared to equipment.

Our first quarter 2022 non-GAAP operating profit was \$70 million or an operating margin of 22.9%. In comparison, first quarter 2021 non-GAAP operating profit was \$68 million or an operating margin of 22.9%. Our first quarter 2022 non-GAAP net income was \$53 million or \$0.93 per diluted share. In comparison, first quarter 2021 non-GAAP income was \$52 million or \$0.90 per diluted share.

Overall, for the first quarter, we achieved earnings growth that was in line with sales growth in the face of supply chain challenges that affected production volume, and our driver shipments have held steady at roughly 75,000, illustrating the strength of ou

core business. Now, I'd like to provide you with an update on our 2022 financial guidance, including expectations for the recently acquired Sound United business, which closed three weeks ago. Due to the acquisition and timing of revenues stemming from supply chain challenges in the first quarter, we are providing consolidated guidance ranges for the second quarter and for the full year. Our guidance incorporates increased foreign currency headwinds from the strengthening of the U.S.

dollar against most major currencies. For the second quarter of 2022, we are projecting consolidated revenue of \$525 million to \$555 million, which includes \$180 million to \$190 million of revenue for Sound United from the closing of the transaction on April 11 through the end of the quarter. For our healthcare business, we are projecting \$345 million to \$365 million of revenue, which includes \$4 million of year-over-year currency headwinds. For the first half of the year, this implies a revenue range of \$649 million to \$669 million for our healthcare business, which reflects 9% to 12% constant currency growth.

Consistent with what Joe mentioned earlier in the call, this outlook illustrates our confidence in recapturing a large portion of the delayed revenues in the second quarter while being thoughtful about the broader supply chain environment and logistics challenges. Going back to our second quarter guidance. We are projecting consolidated non-GAAP gross margins of 56%, operating margins of 18% and earnings per share ranging from \$1.13 to \$1.25. Now, moving on to our full year 2022 financial guidance.

For the full year, we are projecting consolidated revenue of \$2 billion to \$2.06 billion, which includes \$660 million to \$700 million of revenue for Sound United from the closing of the transaction on April 11 through the end of the year. For our healthcare business, we are projecting revenue of \$1.34 billion to \$1.36 billion, which includes \$17 million of year-over-year currency headwinds. This implies a constant currency revenue range of \$1.357 billion to \$1.377 billion compared to our prior constant currency

guidance of \$1.357 billion. This update reflects 9.5% to 11% constant currency growth for our healthcare business.

We are also projecting shipments of at least 300,000 technology boards and instruments this year. On a non-GAAP basis, we are projecting gross margin of 56% for our consolidated business, which assumes gross margin of 36% to 37% for Sound United and 66.5% for our healthcare business. Incorporated in our guidance for the remainder of the year are higher freight and product costs, which we believe will be partially offset by increased manufacturing efficiencies and cost reduction efforts. On a non-GAAP basis, we are projecting an operating margin of 18% to 19% for our consolidated business, which assumes operating margins of 5% to 7% for Sound United and 24.8% for our healthcare business.

It is important to note that Sound United's operating margin guidance includes co-development and co-commercialization investments that will drive the expected benefits of this acquisition. These initiatives will allow us to enter and expand into large and growing markets that are, in order of magnitude, larger than the markets we serve today. These investments represent roughly 2% of Sound United's revenue. Furthermore, this guidance includes depreciation, amortization and noncash share-based compensation expenses, which represent approximately 4% of Sound United's revenue.

Lastly, the continued strengthening of the U.S. dollar against most major currencies has negatively impacted Sound United's operating margins by a magnitude of two percentage points. Moving further down the P&L. Our non-GAAP nonoperating expense for the consolidated business is expected to be \$18 million in 2022.

This is primarily comprised of the interest expense associated with the roughly \$600 million drawdown against the new credit facility used to finance the acquisition. We are also projecting a non-GAAP tax rate of 25.3% and weighted average shares outstanding of 58.2 million for the consolidated business. Based on these

assumptions, we are projecting a non-GAAP EPS range of \$4.46 to \$4.73 on a consolidated basis. To summarize, our core healthcare business is on track to meet or exceed expectations this year, and we are steadfast in our commitment to achieving long-term revenue growth of 8% to 10% for this business.

I've never been more excited about our long-term financial future. For additional details on our 2022 financial guidance, please refer to today's earnings presentation within the investor relations section of our website at masimo.com. With that, I'll turn the call back to Joe.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Micah. Back in February, we announced our plans to acquire Sound United as part of our strategy to be a leader in the growing trend of moving healthcare from hospital to home as well as to deploy Masimo technology in all settings where it can be useful. With the acquisition, we announced our intent to launch some high potential products in the consumer health and wellness area, including our biosensing watch and to create enhanced hearing on biosensing earbuds. Sound United has a healthy and growing presence with its premium brand.

In addition to the brand, we saw at least four very valuable assets in Sound United that influenced our decision to acquire the company. One, a well-established network of global distribution channels with over 20,000 distribution points we can access for our upcoming consumer health and wellness product launches. Two, a connectivity software platform called HEOS that can connect any type of digital device to flow data through a network and into the cloud, which can be useful for telehealth and telemedicine systems. Three, premium brand wearable sound devices, such as Denon and Bowers & Wilkins earbuds that can serve as a foundation for creating augmented hearing devices that incorporate Masimo's advanced signal processing and biosensing technologies.

And four, a strong leadership team and accomplished professionals with sales, marketing and advertising expertise, who can facilitate the successful launch of our consumer health and wellness products over the next 12 months and beyond. In 2021, Sound United saw strong demand for its home theater products as consumers streamed more content at home than ever before. Sound United has reinvested in the Bowers & Wilkins brand with numerous product launches such as the 800 Diamond loudspeakers, PI5 and PI7 wireless headphones and iconic Zeppelin wireless speaker. Looking at 2022, Sound United should continue to benefit from the growth of high-resolution audio streams that should drive adoption of premium home entertainment systems, which can process it.

The company also has new products from the Bowers & Wilkins brand, such as the Panorama, sound bar and new headphone models. The brand will also be growing its partnership with renowned automotive brands such as BMW, McLaren and Volvo. Launch plans for 2022 include new industrial design and connected functionality across the suite of Marantz products as well as Denon expanding its reach with an enhanced offering of home wireless surround sound speakers and home theater solutions, and Polk extending this lineup with several Dolby Atmos sound bars. As you can see from the earnings presentation on our website, the Sound United acquisition increases our total market potential from \$12 billion annually to over \$180 billion as we expand into new, large and growing consumer health and wellness markets.

While we expect brands like Bowers & Wilkins, Denon, Marantz and Polk consumer products to achieve strong growth on their own, we do believe our healthcare business, including hospitals and home, will help -- with help from our entire organization, will grow more rapidly and eventually constitute the vast majority of our revenues. Some of the markets I'm truly excited about are the opportunities for combined products we will be introducing such as biosensing watches and augmented hearing devices. Just imagine the incredible audio engineering of Bowers & Wilkins, Marantz and Denon in combination with Masimo's advanced digital signal processing and biosensing



engineering. They pioneered innovations for the incredible sound we experience with those top-tier brands.

And we pioneered the use of advanced signal processing such as adaptive filters, systems theory and AI in the biosensing arena. We believe we will pioneer incredible new solutions together, all for the betterment of life. The strategic work of Masimo in consumer health and wellness and into the home with telehealth technologies began many years ago with a focused research and development efforts to capitalize on emerging use cases for our technologies. Examples of these products include the launch of iSpO2 in 2012, Radius PPG for SafetyNet in 2019 and sleep in 2020 as well as Radius team for temperature monitoring in 2020.

And just yesterday, on the 33rd anniversary of our incorporation, we announced the limited market release of Masimo W1, our first biosensing watch, offering continuous and accurate pulse oximetry and other measurements. Our ability to help lives can go beyond the confines of hospitals and long-term care facilities. We are very excited by what we can do to help improve life in other settings, especially the home. We will have more to say at our upcoming investor day in September here in Irvine.

I hope you'll all be able to join us to learn more about the future of Masimo and what it will mean to the lives of many. We've expanded our mission to improve life and we remain committed to our mission of improving patient outcomes, reducing the cost of care and taking noninvasive monitoring to new sites and applications. With that, we'll open the call to questions. Operator?

## Questions & Answers:

### Operator

[Operator instructions] Our first question comes from Rick Wise from Stifel. Please go ahead. Your line is open.



**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Good afternoon, Joe, Micah. Let me ask one on the base business and one on Sound United. The base business, I mean, clearly came in, in the middle of your range. Help us think -- Micah, perhaps I'll start with you about the setup for the second quarter for the core business.

The full year is on track, you reiterated in your guidance. But maybe quantify for us what the revenues would have been, do you think, in the first quarter. And do we layer that on top of what second quarter might have been? How do we think about the cadence now as you play catch-up on that side of things?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. I think, Rick, I think the best way to look at it is we're providing a guidance range of \$345 million to \$365 million for the second quarter for Masimo. That basically implies that we're recovering a large portion of those revenues in the second quarter because we're seeing more confidence in our ability to recover the shortfall in Q1. We're also being thoughtful about supply chain challenges, just like shipping and logistics that we experience at the end of quarters.

So -- but if you look at the year-to-date, I think an important point I made in my prepared remarks is that for the first half of the year, our revenue range in the second quarter implies a first half revenue of \$649 million to \$669 million for our healthcare business, which reflects 9% to 12% revenue growth on a constant currency basis. I think that's the way you should look at it.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

OK. Got you. Joe, maybe let me turn to you and talk about Sound United. Obviously, I mean, I think that people have been, I don't know what the right word is, confused, concerned about this deal.

You're laying it out very clearly, your vision about the future. Maybe help us understand from several angles what needs to be done to integrate the acquisition. Now when do we start to see this vision unfold that you're talking about? And maybe talk about the combined pipeline, both the Masimo pipeline and the Sound United pipeline, and how -- and when we're going to see that truly contribute to growth. I don't know how to say it clearer than that.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

No. No, you were correct. They were great, Rick. So one, from everything that I have seen and the feedback I've gotten, both teams, Masimo and Sound United teams, are really excited about this acquisition.

Everyone's working really well together. The engineering team at Sound United is excited about the combined projects that we are doing. and so is the Masimo team. We've already kicked off a few product road maps and product development together, which we hope to begin seeing coming to the market in 2023.

In addition, we are working on a very long-term path of ensuring the vision that we have ultimately comes to fruition for the combined companies in both the telehealth, home monitoring consumer healthcare as well as the home side of things. As far as when you will see the revenue impact of this combination beyond what they each are doing on their own, I think it will be 2023. But already, we're getting the benefit of the team as Sound United to think through the launch of W1 and the other products that are coming that are derivatives of W1 in the future. So I'm -- so far, thumbs up all around.

And this is the honeymoon stage. I hope I can tell you the same thing six months and a year from now, but it feels really good.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

OK, thank you very much.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Rick.

**Operator**

Our next question comes from Jayson Bedford from Raymond James. Please go ahead. Your line is open.

**Jayson Bedford** -- *Raymond James -- Analyst*

Hi. Good afternoon, and congrats on both managing 1Q and the close of the deal. So just a couple of questions on Sound United. What's the growth rate assumed in the Sound United revenue guide of \$660 million to \$700 million?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Jayson, this is Micah. What's implied in our guidance and we can't really give the pro forma numbers yet. We're hoping to provide those very soon as far as what last year's results were.

The team at Sound United is still working through their year-end audit. And they close their financial year on a different fiscal year than us. They close in March 31 as opposed to our fiscal year ending in December. So they just recently closed the financials for the year.

They're working through the audit. We're also working through the stub period because we closed the transition -- transaction on April 11. So keep that in mind, that the revenue we're guiding to for Sound United, the \$660 million to \$700 million, is from April 11 through the end of the year. What it implies, though, in our full year guidance is that they're about a high single-digit revenue growth rate on an organic revenue growth, looking at a pro forma as well as constant currency.

Keep in mind, there's a lot of currency headwinds that both businesses are experiencing. But if you back that out, we're assuming high single-digit growth for the full year.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK, great. And I hate to ask another boring financial question. But Micah, the assumed op margin for Sound United at five to seven is a bit lower than we thought coming off the fourth quarter call. I think we're thinking mid-teens EBITDA.

I think you did a good job of bridging the two. But are there temporary cost weighing down margin here in the near term? And I guess I'm wondering is kind of sub 10% op margin the right way to think about the business?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. No, I think they've definitely got room to improve the operating margins. They've done a good job of actually managing margins over time. But I think the way to think about it is -- one thing that's kind of transitory.

And depending on where currency goes, but they're getting about two percentage points of headwinds due to currency this year that they didn't have in their financials last year. So that's one piece. The other piece is we are including about 2% of the revenue for investment in co-development projects and co-commercialization projects as we try to drive the strategic initiatives of the business together. And then the other 4%, if you're trying to walk back to that -- you're probably assuming kind of a 13% to 14% EBITDA number, is they have about 4% of depreciation and amortization and now share-based compensation in that number as well.

So that should kind of bridge of the gap there.

**Jayson Bedford** -- *Raymond James -- Analyst*

Yup. Thank you.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

You're welcome.

**Operator**

Our next question comes from Jason Bednar from Piper Sandler. Please go ahead.

Your line is open.

**Jason Bednar** -- *Piper Sandler -- Analyst*

Hey. Good afternoon. Thanks for taking the question here. I want to start with coming back to a couple of the topical issues here at hand, supply chain dynamics and then Sound United for my follow-up.

But starting with the supply chain. The hiccups risen here for a lot of manufacturers here in the last several months, both in terms of sourcing product needed and then getting finished goods to where they need to be. So I appreciate the updated views here at the outset of today's call. But wondering what's the level of risk we should be considering and running into a similar situation, supply chain challenge going forward, be it for Masimo or Sound United.

And then is there any color you can talk about or confidence you can get here to ensure that the issues that hit here in the first quarter don't repeat.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, we thought we were immune to it. As many, many companies over the past couple of years complained about supply chain, we had always been able to mitigate them. So I guess once bitten, twice as shy. We -- I can't guarantee you we won't have problem again since we had one that we couldn't have predicted before.

What I can tell you is there was a myriad of issues, from labor shortage, component shortage to Shanghai lockdown and shipment problems. So we believe at this point, as I said earlier in our prepared remarks, we have all the components we need to not only fulfill what we couldn't ship at the end of Q1, but what we expect to do in Q2, with the range that Micah provided. So really the only thing that can go wrong now is shipments, shipment delays. We are reaching out to our customers that normally want the shipment toward the end of the quarter to see if they'll take it earlier so that we hopefully don't end the quarter with any potential problems, but we'll do everything we can.

The one thing I'll tell you on the labor shortage, we've gone a little overboard. Not only are we remaking everything we need. As I said earlier, we pretty much have caught up to all of the purchase orders that we had. But we're not shipping safety -- we're not making, excuse me, safety stock and much more than we had previously planned to just to make sure we can weather any hiccups.

So all I can tell you, we really have a wonderful team. And they've done everything and they're doing everything. But unfortunately, there's no guarantees.

**Jason Bednar** -- *Piper Sandler -- Analyst*

OK, all right. No, that's helpful. And maybe just for the follow-up here on Sound United. Joe or Micah, just bigger picture, thinking about the go-forward strategy here.

I know we'll hear more at the investor day in September. But I wonder if there's anything here you can discuss, just like what are the near- to intermediate-term plans in consumer beyond the recent W1 announcement. And here, I'd really just be curious how you plan to move forward with establishing the consumer brand, what other infrastructure investments might be necessary to have a proper platform to build from. And then anything you'd be willing to share on additional pipeline items beyond the watch and the hearing aids that you've highlighted already.

Thank you.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, I think Micah and I both can take this one. Bottom line is we have bought Sound United for several reasons. I think I articulated that during our prepared remarks. One of them is their management team and their ability to think through consumer sales, advertisement, logistics.

Secondly, their very strong distribution channel, which is over 20,000 distribution points with strong relations that have been built over decades. So we expect to use that. We're also discussing additional novel approaches to add to what they've been doing, which we will share with you later as we announce them. So a big reason for this acquisition is our conclusion that we have some really incredible products coming out without an incredible distribution channel and team.

And as we tried over the last few years as we were preparing for the launch of W1 and other products, we try to build that up organically. We had not succeeded to the level that we thought would fulfill our plans. So they are our plan. And we have additional things we're brainstorming with them but that's really the plan.

**Jason Bednar** -- *Piper Sandler -- Analyst*

Great. Thank you.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you.

**Operator**

Our next question comes from Michael Polark from Wolfe Research. Please go ahead.  
Your line is open.

**Michael Polark** -- *Wolfe Research -- Analyst*

Good afternoon. Thanks for taking the question. I'm going to ask another one on the strategic direction and frame it maybe a little bit differently. The question is this, did the investment community's response to the Sound United transaction surprise you? And in the context of \$1 billion investment to purchase the asset, and the market has voted by reducing your enterprise value by \$6 billion or \$7 billion, that's a alarmingly high spread.

And so I just wondered, did that surprise you? And if it did, has it catalyzed perhaps a rethink of maybe the best way forward with the consumer strategy and if there might be a different way to prosecute this vision?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. It definitely surprised me. I couldn't have imagined the way some of the investors reacted because, look, I don't know why people want to invest in Masimo or why they don't. But if people got out because of the Sound United, that was really a bad decision because Sound United helps our plans for the future.

And we didn't mortgage much to gain that assurance for our future. So yeah, no, the investors' reaction is a big surprise, but it doesn't at all, not at all, change our thinking about the reason we did it and our conclusion that this is a great acquisition. As of this point, we told you before, if things don't work out, you make decisions, you go forward, but sometimes you can be wrong. If it doesn't work out, we'll let you know.

But this is really at this point what we think is the best thing we could have done. And I can tell you, maybe I'm old fashioned, but I thought the business' job was to try to figure out what your customers want in products and services and provide that to them in an ethical fashion, improve your cash flow and improve your chances of survival in the future. That's what the Sound United acquisition does for us. And people who don't see that, I'm not one to judge them but I hope we'll prove them wrong.



**Michael Polark** -- *Wolfe Research -- Analyst*

Fair and full response, I appreciate that. If I could drill into the weeds of the quarter with one or two follow-ups, I'd appreciate it. Micah, perhaps for you, the board and monitor shipment number look to be solid and up sequentially and in the zone of expectations, but the revenue missed. And so I just -- maybe it's just me and not everyone else, but I'm just trying to bridge the variance there.

How does the shipment number get there but the revenue fall short?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yeah. Michael, the answer there is, really, our overall driver shipments were strong, as you see from the number, and that's really driven by the amount of technology boards that we were able to get out due to the strong demand. We -- as far as our Masimo-branded equipment, that was kind of tied up with some of those supply chain and logistics challenges we had in the quarter. So our driver shipments would have been stronger in the first quarter had we been able to ship all those Masimo-branded drivers.

So I think that that's where you're going to see. And listen, we've got more and more confidence of that 300,000 -- at least shipping 300,000 this year for the rest of the year. So I think that's the floor now, and that's what we're driving to. And I think you'll see strong shipments each quarter for the rest of the year as we start to recover on some of that Masimo-branded equipment.

**Michael Polark** -- *Wolfe Research -- Analyst*

Got it. So the shipments would have been higher. That's a good reply, good color. Thank you.

And last one, look, I need to do work on the consumer wearables marketplace, clearly. I was walking around Best Buy last weekend and hadn't been there in seven years. ☺

was -- I had to orient -- where will W1 fall in the U.S. market from a selling price perspective? Is there any color you can provide? I saw the release yesterday that the pilot users get access to the device for half off and that will be coming up here in the next quarter or two.

But as you roll this out and a fuller commercial launch perhaps next year, how will the price point compare to some of the other products in the market?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

The W1 will probably be in the market at \$500 with services that people can sign up for, for monthly or annual agreements. And as far as where it lands in the market, it is the only continuous and accurate pulse oximetry with many other features that will come that we'll announce after the limited market release date. So we think it's probably just right.

**Michael Polark** -- *Wolfe Research -- Analyst*

Thanks for taking the questions.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you.

**Operator**

[Operator instructions] Our next question comes from Marie Thibault from BTIG. Please go ahead. Your line is open.

**Marie Thibault** -- *BTIG -- Analyst*

Hi. Good evening. I did want to hear a little bit more about the augmented hearing device. You can tell me if we need to wait for September, but I'd love to hear a little

more about what that will be capable of.

Is this a hearing aid or is this something more that you're envisioning?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, we have to be -- first of all, we believe it will have the ability to help people experience sounds better. There might be an Rx version for us for over the counter that will get FDA clearance that will be marked for hearing enhancement. And there might be ones that are marketed as the best sound possible for individuals that will not be making claims about hearing improvement.

**Marie Thibault** -- *BTIG -- Analyst*

OK. That's clear enough. We look forward to hearing some time lines on that. I'll ask my follow-up here away from Sound United.

Would love to hear an update sort of on the litigation front, the patent front. I don't know how much you can tell me, but we've been certainly following the inter parties review and some of the back and forth on the lawsuit. So I would like to hear the latest or just anything factual you can tell us on the lawsuit as well as the International Trade Commission.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, on the International Trade Commission case, we're going to go to trial in June, and we expect to have a decision in September with the final resolution in January of next year. The patents that we have in that case, we believe, are great patents and spot on. So we feel really good about our ITC case. And then on the district court, which is supposed to retrial in March, we have a trade secret case.

As you know, the patent case got stayed when Apple filed the interparty reexam on our patents. A couple of the key patents in that case have been allowed by IPR. So they may get added to the trade secret case or they may go up to a third case, third trial. But so far, we feel really good about our cases.

And hopefully, we'll have some good news to share in the future. I think we're done for the day. We appreciate you all attending and being on the call. Our analysts are welcome to take part of the limited market release of W1 as long as you agree to our rules, so that you can learn something more about what we're doing.

So thank you all, and we look forward to our next call.

**Operator**

[Operator signoff]

**Duration: 43 minutes**

## Call participants:

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

**Joe Kiani** -- *Chairman and Chief Executive Officer*

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

**Jayson Bedford** -- *Raymond James -- Analyst*

**Jason Bednar** -- *Piper Sandler -- Analyst*

**Michael Polark** -- *Wolfe Research -- Analyst*

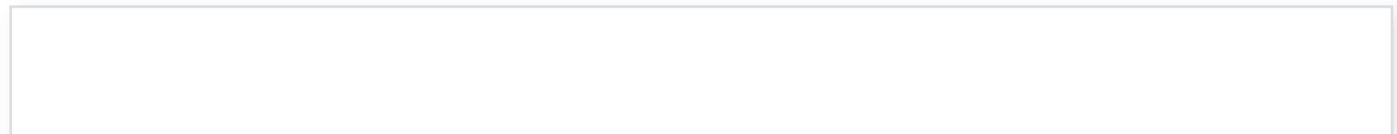
## Marie Thibault -- BTIG -- Analyst

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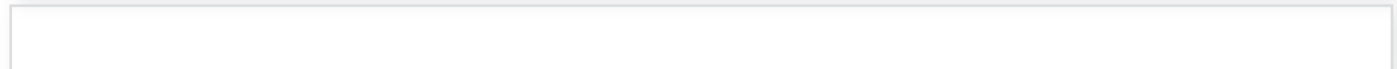
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# Masimo (MASI) Q4 2021 Earnings Call Transcript

By **Motley Fool Transcribing** – Feb 15, 2022 at 10:00PM

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MASI earnings call for the period ending December 31, 2021.

**Masimo** (**MASI 0.88%**)

Q4 2021 Earnings Call

Feb 15, 2022, 4:30 p.m. ET

## Contents:

- Prepared Remarks
- Questions and Answers
- Call Participants

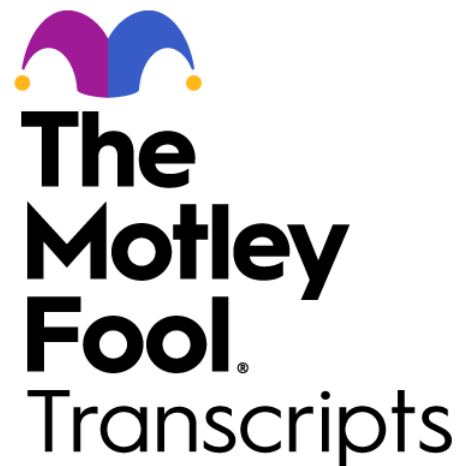


IMAGE SOURCE: THE MOTLEY FOOL.

## Prepared Remarks:

**Operator**

Good afternoon, ladies and gentlemen, and welcome to Masimo's fourth quarter and fiscal year 2021 earnings conference call. The company's press release is available at [www.masimo.com](http://www.masimo.com). [Operator instructions] And now I'm pleased to introduce Mr. Eli Kammerman, Masimo's vice president of business development and investor relations.

Please go ahead, sir.

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

Thank you, and hello, everybody. Joining me today are Chairman and CEO Joe Kiani; and Executive Vice President and Chief Financial Officer Micah Young. This call will contain forward-looking statements, which reflect management's current judgment, including certain of our expectations regarding fiscal year 2022 financial performance. However, they are subject to risks and uncertainties that could cause actual results to differ materially.

Risk factors that could cause our actual results to differ materially from our projections and forecasts are discussed in detail in our periodic filings with the SEC. You will find these in the Investor Relations section of our website. Also, this call will include a discussion of certain financial measures that are not calculated in accordance with generally accepted accounting principles or GAAP. We generally refer to these as non-GAAP financial measures.

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In addition to GAAP results, these non-GAAP financial measures are intended to provide additional information to enable investors to assess the company's operating results in the same way management assesses such results. Management uses non-GAAP measures to budget, evaluate and measure the company's performance and sees these results as an indicator of the company's ongoing business performance. The company believes that these non-GAAP financial measures increase transparency and better reflect the underlying financial performance of the business. Reconciliation of these measures to the most directly comparable GAAP financial measures are included within the earnings release and supplementary financial information on our website.

Investors should consider all of our statements today, together with our reports filed with the SEC, including our most recent Form 10-K and 10-Q in order to make informed investment decisions. In addition to the earnings release issued today, we have posted a quarterly earnings presentation within the Investor Relations section of our website to supplement the content we will be covering this afternoon. I'll now pass the call to Joe Kiani.

### **Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Eli. Good afternoon, and thank you for joining us for Masimo's fourth quarter and 2021 year-end earnings call. While 2021 was a very challenging year in global healthcare and for millions of patients. We were able to help ease the burden on hospitals their caregivers and patients by providing them with our breakthrough technologies.

As some hospitals were overwhelmed with COVID patient admissions, our monitoring products made a real difference in patient care. Our team demonstrated our

commitment to our mission and guiding principles by putting our customers' and patients' priorities first. The long duration of the COVID pandemic drove demand for monitoring equipment and tools to enhance the productivity of overburdened healthcare workers. We manufactured and installed record numbers of our innovative products last year despite supply chain challenges, building on our reputation for responsiveness and dedication to our customers.

As a result, our installed base grew by 7%, while our revenues for fiscal year 2021 grew by 8% against the 22% revenue growth in the prior year. We achieved revenues of \$1.239 billion in 2021 as more customers than ever used and switched to Masimo products, acknowledging our clinically superior performance and value for optimizing care and improving outcomes. During 2021, we expanded our portfolio of products with a combination of internally developed and acquired technologies that enable caregivers to rapidly capture the most accurate patient data regardless of the setting. We broadened sales and marketing efforts for the softFlow non-invasive ventilation system for patients with respiratory distress and extended the reach of the LiDCO cardiac output and hemodynamic monitoring products used in surgery.

Our 2021 results exceeded expectations and have positioned us for a year of double-digit constant currency revenue growth in 2022. I'll discuss more later in the call, including further details on our pending acquisition, which we announced with our earnings press release. Now I'll ask Micah to review our fourth quarter and full-year results in more detail and provide you with an overview of our 2022 financial guidance.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Thank you, Joe, and good afternoon, everyone. Our fourth-quarter results were well above expectations as we once again shipped a record volume of single-patient use sensors while our driver shipments once again exceeded our pre-COVID run rate by more than 20%. Increased demand for patient monitoring in hospitals has been durable as these results demonstrate. We had a record-breaking fourth quarter of

securing new customer contracts, resulting in another record contracting year for Masimo.

In fact, we converted a major U.S. hospital system to Masimo technologies in the fourth quarter. During the quarter, we shipped 76,000 technology boards and instruments, which was the highest quarterly figure for 2021 and points to continued demand for our technology. We have shipped approximately 2.3 million technology boards and instruments over the last 10 years.

And as of the end of the fourth quarter, we estimate that our installed base has grown 7% versus our installed base at the end of the fourth quarter of 2020. This is a notable increase considering the surge in our installed base a year ago. In fact, we estimate that our installed base has grown 25% over the past two years from the fourth quarter of 2019 to the fourth quarter of 2021. For the fourth quarter of 2021, we reported product revenue of \$328 million, representing growth of 11% on a reported basis and 11.5% on a constant currency basis.

If you recall, our fourth quarter 2020 results included one additional week of revenue, which added roughly three percentage points to our growth rate for the prior-year period. Regardless of the extra week in the fourth quarter of 2020, our revenue has increased 32% over the past two years from the fourth quarter of 2019 to the fourth quarter of 2021. Our worldwide sales of single-patient use sensors were up 15% versus the prior-year period, driven by strong demand for our set sensors. In line with typical seasonality, our sensor revenues increased by 4% sequentially versus the third quarter of 2021.

For the fourth quarter of 2021, our worldwide sales of technology boards and instruments were down 3% versus the prior-year period due to the COVID-related spike in purchases in 2020. However, our worldwide sales of technology boards and instruments increased 5% sequentially versus the third quarter of 2021. Moving down

the P&L. Our non-GAAP gross margin for the fourth quarter increased 240 basis points to 65.9%, compared to 63.5% in the prior-year period.

If you recall, in the fourth quarter of 2020, we experienced significant COVID-related inefficiencies, which suppressed our gross margin. Our non-GAAP selling, general and administrative expenses as a percentage of revenue increased 30 basis points to 30%, compared to 29.7% in the prior-year quarter. And our non-GAAP research and development expenses as a percentage of revenue decreased 50 basis points to 10.2%, compared to 10.7% in the same quarter last year. For the fourth quarter, our non-GAAP operating profit was \$84.2 million or an operating margin of 25.7%.

In comparison, fourth quarter 2020 non-GAAP operating profit was \$68.1 million or an operating margin of 23.1%. This reflects non-GAAP operating profit dollar growth of 24% over the prior-year period, driven by strong revenue performance and operating margin expansion of 260 basis points over the prior-year quarter. Moving further down the P&L. Our non-GAAP tax rate was 16.9%, which came in below the 22% tax rate that was implied in our last guidance.

This was primarily due to higher-than-usual R&D tax credits in combination with a favorable geographic mix. And our weighted average shares outstanding for the quarter was \$57.8 million. For the fourth quarter, our non-GAAP net income was \$70.1 million or \$1.21 per diluted share. In comparison, fourth quarter 2020 non-GAAP net income was \$57.3 million or \$0.98 per diluted share.

This reflects non-GAAP EPS growth of 23% over the prior-year quarter. Turning to our GAAP results. GAAP net income for the fourth quarter of 2021 was \$68.3 million or \$1.18 per diluted share. In comparison, Fourth quarter 2020 GAAP net income was \$70.7 million or \$1.21 per diluted share.

Included in our GAAP earnings for the quarter was \$4.4 million of excess tax benefits from stock-based compensation, compared to \$10 million of excess tax benefits i

prior-year period. Overall, for the fourth quarter, we delivered strong performance across the business that exceeded expectations with double-digit revenue growth operating profit dollar growth of 24%, and EPS growth of 23%. And our driver shipments once again exceeded our pre-overrun rate by more than 20% even after the large surge in driver shipments we experienced in 2020. Looking back, 2021 was another record year for Masimo in terms of winning new customers.

Despite the difficult year-over-year comparisons, we delivered revenue growth of 8%, operating profit dollar growth of 12%, and EPS growth of 11% on a non-GAAP basis. Over the past two years, from fiscal year 2019 to fiscal year 2021, we have increased our revenues by 32%, operating profit dollars by 31%, and EPS by 24% on a non-GAAP basis. Over the same two-year period, our installed base of technology boards and instruments has increased by 25%. The number of connected beds via Patient SafetyNet and Iris Gateway has grown by more than 50%, and our installed base for our Root connectivity platform has more than doubled.

Now I'd like to go into more detail on the full year 2022 financial guidance that we outlined in our press release last month. It is important to note that this guidance does not reflect the impact of our pending acquisition which Joe will discuss in more detail later in the call. For 2022, we are projecting product revenues of \$1.350 billion which reflects year-over-year growth of approximately 9% on a reported basis and 10% on a constant currency basis. Included in our product revenue guidance is \$7 million of year-over-year currency headwinds.

Our non-GAAP gross margin guidance is 66.5%, which represents a 70-basis-point increase over our 2021 results. And our non-GAAP operating expense guidance is 41.7% of revenue, which reflects a 30 basis point decrease over the prior-year period. Our guidance for non-GAAP operating profit margin is 24.8%, which reflects a 100-basis-point improvement over the prior-year period. Based on these assumptions, our non-GAAP operating profit dollars are expected to grow 14% to reach \$335 million in



2022, which reflects strong operating leverage and profit dollar growth that is one and a half times our revenue growth rate.

Moving further down the P&L. Our non-GAAP non-operating income, which is primarily comprised of interest income, is expected to be a very nominal amount in 2022. We are also projecting a non-GAAP tax rate of 24% and weighted average shares outstanding of \$58.8 million. Based on these assumptions, we are projecting non-GAAP EPS of \$4.34.

And from a GAAP perspective, we are projecting a GAAP tax rate of 19.4% and GAAP earnings per share of \$4.27 for the year. For additional details on our full year 2022 financial guidance for GAAP and non-GAAP earnings per share, please refer to today's earnings release and supplemental financial information within the Investor Relations section of our website at masimo.com. To conclude, our performance last year has built a strong foundation for 2022 and beyond. We delivered another record year in terms of -- in 2021 in terms of winning new customers, which has expanded our potential for future business across our entire portfolio and sets the foundation for a strong recurring revenue stream in the years ahead.

As we introduce products into new markets this year and beyond, we can play an important role in improving patient outcomes and reducing the cost of care. We are entering 2022 with a positive outlook for revenue growth and profitability. Our guidance reflects our confidence for driving double-digit organic growth for both revenue and operating profit operating profits as we remain steadfast in our commitment to delivering on our long-range financial goals. With that, I will turn the call back to Joe.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Micah. There's no question that 2021 provided us with an opportunity to shine by contributing to solutions for the multiple challenges related to the pandemic. As the press from COVID now start to diminish, we're all well-positioned to build o

progress we achieved in the last two years from winning the trust of more customers. This has led to a record amount of new customer businesses including Providence, a 50-plus hospital system with 25,000 physicians, a total of 120,000 caregivers serving 25 million patient visits a year.

This is due to increase our ability to make even a bigger positive difference. We feel that the end of the pandemic is in sight. Our observations in the field reveal that hospitals are becoming more optimistic about a return to normal conditions. We should benefit from the rebound in surgical procedures because our solutions include a variety of products used in the surgery that are positioned for growth in 2022 and beyond.

These products include rainbow, SedLine, O3, NomoLine, and LiDCO. Our ability to accurately measure hemoglobin levels with rainbow and cardiac output with LiDCO in combination with SET Pulse Oximetry and O3 organ Oximetry provides clinicians with a valuable means of assessing oxygen delivery to vital organs. Knowing oxygen delivery levels in real time can optimize intraoperative blood transfusions and help improve outcomes. Masimo has evolving from a company with breakthrough noninvasive monitoring technologies for hospitals into a company that can provide breakthrough monitoring capabilities in any setting, fulfilling our mission of taking noninvasive monitoring to new sites and applications.

From the launch of iSpO2 over a decade ago, we have implemented a major strategic initiative to leverage our clinically superior technologies into wearable devices for deployment in the home setting. Our home strategy is coming to fruition with significant new products and features that will contribute to our success in this emerging field, including the recent announcement of telehealth features with Masimo SafetyNet and the Masimo Watch. Last week, we announced a significant expansion of the capabilities of Masimo SafetyNet to include secure video conferencing to enable a comprehensive telehealth solution. With this new capability, we can provide patients

with a better hospital at home experience, as well as virtual doctor visits from their homes.

Masimo station now allows clinicians and hospitals to schedule and conduct multiway audio and video-based virtual appointments with at-home patients through the Masimo SafetyNet smartphone app while being able to view continuous and spot-check vital signs and other physiological data. We see telehealth and telemonitoring as areas where we can deploy our differentiated clinically superior technologies to obtain the most accurate patient data to drive optimal outcomes in patient management. Complementing these technologies with software and hardware that facilitates easy interactions between patients and healthcare professionals is critical. Data is useful only when it's true and readily available to experts that can interpret it.

Masimo SafetyNet can become a premier telehealth solution by integrating reliable telemonitoring with telehealth to provide superior patient experience that is fast, reliable, and easy to use. We've developed a full suite of products for enabling effective telemedicine the Masimo SafetyNet app is the easiest way for patients to connect with their doctors and care team without having to download additional apps or send in their physiological measurements separately. Our devices from home, monitoring today include the Tetherless Radius PPG and Radius T sensors, which can collect oxygen saturation, pulse rate, respiration rate, temperature, and other data. Our newest offering in our telehealth product suite is the Masimo Watch.

The W1 wearable monitor, which we recently debuted at the ERIC Health Conference and is expected to be released worldwide in the second quarter this year. The W1 is a versatile product that uses Masimo SET technology to obtain oxygen saturation, pulse rate, and respiration rate on the risk on appreciably. In addition, we have added capabilities for measuring steps, detecting falls, and capturing ECG signals and arrhythmias. Today, we announced our intent to acquire Sound United.

A company with a premium consumer technology platform and iconic universally recognized brands like Bowers & Wilkins, Denon, Marantz, and Polk Audio, as well as an integrated wireless software platform, HEOS, connecting devices and networks in the home. As important, Sound United has an excellent team of leaders, engineers, manufacturing and supply chain experts, and highest ability consumer electronics. The transaction is expected to close near midyear and is subject to customary closing conditions. We expect this acquisition to be immediately accretive and to support our long-range revenue growth target of 8% to 10%.

The Sound United transaction aligns with Masimo's priorities, objective, and vision by advancing our strategy of enabling connected monitoring across both the hospital and home. We see significant opportunities to cross leverage technologies, bringing Masimo's clinically superior solutions into the home and on the go as well as bringing Sound United's premium technologies into hospitals to advance our hospital automation connectivity and cloud-based technologies. The technology and expertise with Sound United will serve us well as we aim to augment our telehealth and telemedicine strategy. Their well-established reputation and presence in the home can be leveraged by Masimo to accelerate our success in gaining adoption of integrated home-based telemedicine solutions, first with the Masimo Watch W1.

In addition, Sound United unlocks access to large, well-established consumer channels of offering us immediate scale with leading retail establishments like Best Buy in the U.S. and Euronics in Europe. Our portfolio of products for consumer health and wellness is expanding as we launch more wearable technologies into the market. We intend to build on the success of products such as Masimo Sleep, Radius T, and MightySat with forthcoming introduction of some exciting new technologies.

Our go-to-market strategy is highly differentiated and bringing clinically superior technologies to consumers using our clinical and signal processing expertise to enable better health and wellness decisions at home and on the go. The potential for Masimo technologies to be integrated into wearables and connected consumer

devices is a key driver of our announcement today. The strategic expansion of Masimo in the hospital and into the home has been underway for years, as we develop many innovations that broaden the use cases and addressable markets for our technology. We've added hospital automation and connectivity solutions, and we're now introducing exciting new products for telehealth, telemonitoring, and consumer health and wellness.

These new opportunities outside the hospital represent very large and growing addressable markets that far exceed the size of the traditional market that we serve today. We hope to succeed in these new markets by delivering superior technologies that have proven success in the hospital setting. In closing, Masimo is well-positioned for growth in 2022 and beyond with a steadily increasing installed base and a team focused on improving patient care. We're looking forward to a post-COVID normalization that will facilitate broader use of our products across multiple settings.

This year should be a very productive one for Masimo as our customer interactions intensify, and we expand our addressable markets. We remain committed to our mission to improve patient outcomes and reduce the cost of care and taking noninvasive monitoring to new sites and applications. With that, we'll open the call for questions. Operator?

## Questions & Answers:

### Operator

Thank you very much, Mr. Kiani. [Operator instructions] With that, we'll take our first question this afternoon from Matt Taylor with UBS.

**Matt Taylor -- UBS -- Analyst**

Good afternoon. Thanks for taking the question. So I'd love to hear more about the opportunity here for Masimo with the acquisition. Maybe you could give us a sense for some of your vision about how you'll integrate Masimo technology with these brands and how quickly that could evolve to take more of your hospital technology into the home.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Sure. Thank you. I'm going to give you, I think, a fraction of what we're planning because of competitive reasons. But I think you'll see even the fraction of what we're discussing is going to be significant.

First of all, I want to tell you, since I was a kid, I've been an enthusiast of audio file equipment and the engineering that is done to create these incredible products that can not only replicate recorded music but do it in a way without distortion with incredible fidelity. And the companies that are part of Sound United are the best of the best. And what a fantastic thing, and we're going to hopefully do things to help them become even better, even though Denon is a 100-year brand, Marantz a 50-year brand, and so forth, Bowers & Wilkins and Polk an English and a U.S. company with the first two Japanese companies that have just done a remarkable job.

But they've got things like HEOS, which we really like in the connectivity side. We also see their incredible team and the way they develop the channels in the past 15 years, led by Kevin Duffy as a big relief maybe and an opportunity that we see for the launch of W1 and other products that are coming. We have expanded significant resources for many years to get to this place from a technological perspective. And we believe this team will help us maximize the potential for W1 and other products that are going to follow.

Secondly, maybe as I'm getting older, my hearing is getting worse, but there's an opportunity with the Air Buds and the new regulations in the United States regardir

hearing aids to really do some cool things in both listening to music and having communication to improving the hearing and experiences of many, many people. And we see that as another large opportunity that we will now better be able to serve. These are projects we've been working on internally. But now with Sound United, we can hopefully accelerate them and reach a broader audience more rapidly.

**Matt Taylor** -- *UBS -- Analyst*

And maybe I could just ask a follow-up on the financials that you gave on here. I guess, could you just talk about how is immediately accretive? And any longer-term history that you can give us with the growth rate, why you're confident in this high single-digit growth longer term?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

I'm going to Micah.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yes. Absolutely. Yes. So, Matt, Sound United grew double digits in 2021, and that exceeded historical growth rates.

Going forward, we expect a long-term growth rate of high single digits. And we'll provide more update on the 2022 outlook and on into next year as we think about going forward, once we close the deal and hopefully, we'll have an Investor Day around that time that we closed the deal to really talk about the markets in a bigger way and what we're doing to bring them into the hospital and what we're doing to bring us more into the home with their efforts as well. So I think there's a lot of synergies with this deal. And we're excited what we can do with our clinically superior solutions as we go into the home and even on the go with Sound United.



And also just their premium technologies are very valuable for things that we want to do in the hospital and as we look to advance our hospital automation connectivity and cloud-based technology.

**Matt Taylor** -- *UBS -- Analyst*

Thank you, Micah.

**Operator**

Thank you. We go next now to Rick Wise with Stifel.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Good afternoon, everybody. Joe, one question for you to start. Look, I'm not a consumer analyst. I've had many products in my home with these brand names, so I know it well.

But I'm just -- and I guess I'm very confident, highly confident that you wouldn't have done this transaction unless you had truly visionary ideas and thoughts about how it's going to contribute to Masimo over time. Maybe because I'm not as smart, maybe you can help me better understand how do we think about this translating into revenue not in five or 10 years, but in the next couple of years, how is this all going to unfold that we're going to see what it -- I mean, a series of products that combine Masimo technology and this Sound United technology. Is that going to start kicking in once the deal is closed quickly or it's going to take several years to put all this together? I'm just not sure how I'm going to explain to somebody exactly what this means to sales growth and margins and the outlook for Masimo for the next few years.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you, Rick. First of all, you're one of the smartest guys I know. But we're going to stretch our mind and we're going to stretch yours. I think we're going to put you not just in healthcare but consumer healthcare.

At the Analyst Day that we intend to have post-closing, we're going to lay out some of the immediate product lines and the revenues we anticipate. What I can tell you is that this strategy has been percolating for several years of requiring something like Sound United to help us with the strategy they've been working on for over a decade. So look, I am really excited about this. And I wish I could share with you our vision of where we're going with this.

But as you can imagine, our competitors like to know that too. And I don't want to mess up the future by talking about at the head of time. And I always criticize the tech talkers -- we're doers, we're not tech talkers. So why don't you let us deliver and then you'll see it, but it won't take 10 years.

You're going to see some of the benefits pretty quickly after the merger is complete. And again, Micah will keep you guys abreast of the best day, but we're going to have an Analyst Day, and I hope you can come out and meet some of the folks from Sound United to see some of the things we're planning to do together.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

OK. I total -- I get it. I equally await that moment. Turning to a couple of more mundane things.

Micah, gosh, I have to say I'm impressed with the gross margin guidance, the operating margin guidance. And I might have feared in my heart of hearts that given supply chain challenges, chip shortages, and whatnot, that the outlook might be more challenged. Help us think through that and how are you doing it?

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yes. Great question, Rick. Just like any company right now, I mean, everybody is facing supply chain challenges. The team has done a great job of navigating through those, not to say they don't still exist and that we will navigate through some more in the future.

But our operations team has done a great job. We've continued to see some pressure from some pricing pressure. We've had some higher freight costs that have come through the numbers this past year. And like I mentioned before, a lot of those costs really were magnified during the pandemic and probably set us back a couple of years on our gross margins initially.

And we said that we're assuming those in our guidance as we're looking forward. So we've incorporated that to the best of our ability as we move forward, and we feel very good as we move into this year and that's why we're reconfirming our guidance and expectations and outlook, and it's a very strong outlook going forward. And we're coming off another record-breaking fourth quarter in terms of winning new customers, which has really kind of fueled that confidence for us as we're thinking about the outlook going forward. So that's how I look at it right now, Rick.

And we're going to do everything we can to continue to navigate some of those choppy waters that every company is facing right now.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Great. And just one last one, if I could ask one more. You talked, I think, Micah, about the post-COVID recovery should be positive, should be positive for Masimo. Your field check is positive.

That all sounds great. Help us understand Part A, what you dialed in, in terms of recovery assumptions into your guidance. And two, how specifically, how do we think about that return to more normal or normal active? How do we think about the potential impact on top-line growth? Thanks so much.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

Yes. Absolutely. Rick, I mean, you know me by now working with me in several years now. So I'm very thoughtful, prudent about how we guide.

We want to be confident in our guidance. And we are kind of modeling out a steady return again through the next few months. And then we believe that we'll start to see a pickup in volumes as we move throughout the year. So we still believe volumes were probably down.

Census volumes are probably still around 80% to 90% range as we move throughout the fourth quarter and still suppressed. So we're feeling like things are going to start to open back up more, and we've incorporated some of that in our guidance.

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

Thank you very much.

**Operator**

Thank you. And next, we'll go to Mr. Mike Matson with Needham & Company.

**Mike Matson** -- *Needham and Company -- Analyst*

Thanks for taking my question. Yes. I guess just a few on the acquisitions. Can you maybe tell us what Sound United's gross margin and operating margins are roughly? It looks like the EBITDA margin is up 14%, I think.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes, Mike. So if you look at it, yes, you're right. We'll update you more on the margin profile, but you're right on the EBITDA margin. So if you look at our EBITDA dollars.

So it's about \$125 million of EBITDA. And of course, top line is around \$900 million in terms of revenue. So you're doing the math right. Its right around 14% is what they delivered based on our estimates for 2021 calendar year.

But we'll disclose more as we get closer to the close. And of course, as we get closer to Investor Day and really demonstrate, how it's all come together in terms of the combined company.

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

And I will one of them to bring the revenue with promise of the acquisition what brings out the revenues in the product of both businesses.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. But, I mean, is it safe to assume that at least the gross margin is lower than Masimo, I mean, just given the nature of the consumer products.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes. Yes. Absolutely. I think if you went out there and looked at some of the peers to the company, I mean, you would see it probably closer, maybe a little – slightly lower than even our capital sales margin.

So you're probably in the ballpark, but I'd say you look at some of the peer companies that are out there.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. And then is there any way you can give us any sense of cost synergies you're expecting with this deal.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Sorry. I didn't --

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

No. We aren't expecting any cost synergies. We want that entire team. We hope we can keep the entire team.

So no. Not that.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. And then just finally, from a manufacturing perspective, can you maybe talk about any opportunities there to leverage your purchasing and manufacturing facilities and things like that, certainly since all electronic products.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes. I think you know that's a really mature and well-run area, and we do hope from their manufacturing supply chain team, there will be things we can learn, there will be things we can add. And the great thing is go add few more R&D centers as well as at least two or three more manufacturing sites for us, which will allow us to have a more global reach into the best people, we can hopefully get.

**Mike Matson** -- *Needham and Company -- Analyst*

OK. Got it.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you.

**Operator**

[Operator instructions] And next, we'll go next now to Mr. Jason Bednar with Piper Sandler.

**Jason Bednar** -- *Piper Sandler -- Analyst*

Thanks. Good afternoon. Thanks for taking my questions. Guys, a lot of different things I am going to ask here.

So I will try and transact you in here. On Sound United, I think just help me out with the few items in this deal. Which is a big deal for you, you're putting your stack in the ground and bringing in in-house to consumer technology company, maybe what made Sound United the right asset for Masimo to acquire versus the others targets out there? And your partnerships that you maybe not able to form with other technology companies? How right ownership here with the right approach, there seems like the main joint technology here is the connectivity on your reference maybe why not simply license that part of the technology from Sound United?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, we did look at many different consumer technology companies. We like Sound United the most for several reasons. One, it's management team. Two, the distribution channel, that is essential to what we are doing as an important product for us which is the Masimo Watch.

Three, it's the brand and the quality of those brands and the durability of those brands. So this is not a company -- a product that are here today going tomorrow. So not critical, but great. That their management team are based on callback.

So they are just 30-minutes, 40-minutes from here. So that has made them an ideal company for us to get to the finish line. And then a quick short on partnership, I would tell you we really want to control the strategy. We will go on the things we have in mind to get leaked up there and we need the undivided attention of this team.



When we are developing the rainbow, there were two companies that has the semiconductor, LED, and imported detectors that we needed for rainbow. And we looked hard to get exactly what we needed. So we acquired a company called, Spire Semiconductor they are now called Masimo Semiconductor. And it is one of the best things we did, because not only we were able to focus them on our challenges, but we were getting much better products at much lower cost and even helped our set business, because of what they can fabricate for us.

So I think, we were totally open to partnership. We have many of them, we started as OEM company where we reached partnerships with about 100 companies, this is a strategic area where we felt we are having all in-house under one bandwidth.

**Jason Bednar** -- *Piper Sandler -- Analyst*

OK. So I guess maybe following up on that point, because to be fair, there's a lot of really good consumer technology brands out there that you maybe could acquire. So I guess is the overriding value here, just that you're acquiring channel relationships while bringing on some pretty decent EBITDA in the process? I guess what I'm struggling with is like, what's unique about this asset as far as integrating with Masimo's technology down the road?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. I think the channel is obvious with the management team and but there's more. There's technologies that they have, that we have that together, I think will do a lot more for people, so again, I can't get into that stuff right now, but they will – I mean, I could not think of a better company for us to acquire given how we envision the future.

**Jason Bednar** -- *Piper Sandler -- Analyst*

OK. And just one more for me then, I'll hop back into the queue. I guess, is there any concern, or can you talk about where we are with respect to revenue and EBITDA o

the last 12 months that you referenced there being bolstered by kind of demand during the pandemic? Just maybe how you see this growth that the business looking when we move kind of post-COVID and maybe get beyond some of this what was potentially some kind of demand or do you not see it that way?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

You're talking about the Sound United or Masimo?

**Jason Bednar** -- *Piper Sandler -- Analyst*

Sorry. Just with Sound United.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yeah. Well, you have to assume that there is some COVID bump, that's really the way we went into it and still the way we felt comfortable with it. But if you speak to the management team, it doesn't seem to be a slowing down. And I think it's because of not only some of the new products they've gone into, but some of the new products that they're going to be introducing.

So even on their own they're bullish that this is not going to end, however, we're being more conservative and we acquire them assuming high single digit, long-term growth, but maybe a little slow down right after COVID.

**Jason Bednar** -- *Piper Sandler -- Analyst*

OK. All right. Thanks, gentlemen. Very helpful.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you. Thank you so much. And look, I wish I could share with you all the things we're thinking and wanting to do. I know it's a little frustrating, but it's, we are more

likely to accomplish the end goal if we can keep some of that to ourselves until the products come to market.

**Operator**

Thank you. And we'll go next now to Jayson Bedford with Raymond James.

**Jayson Bedford** -- *Raymond James -- Analyst*

Hi. Good afternoon. Thanks for taking the questions. Just a couple here.

And I hope this isn't a naive question, but where do you see the bigger cross-sell opportunities here? Is it Sound United product into the hospital or Masimo products into the home?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Now I move forward to the home. We see some opportunity for future products that we're going to be creating for hospitals that come from integration of Sound United and Masimo technologies. But immediately, we think they're going to be beneficial to our push into consumer healthcare.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK. And just on that, the W1 offering, what needs to happen before you launch, I think you said 2Q, what needs to happen before you launch, is there a regulatory requirement. And then talk about the channels that you use to sell that product?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, we go through a process called the premarket release, a limited market release, and then the full market release and we do that even when we think the product is done, but we do that to ensure by the time we call the full market release, hopefully

have a perfect product. So we're right now in a premarket release mode. As you saw, we debuted it as our health. We have customers in the Middle East that are using it or about to use it and as far as -- I think when you mentioned kind of the timing of the actual full market releases, it depends how smoothly the premarket release stage and the limited market release stage goes.

Sometimes, they're done in a couple of weeks to -- sometimes they've done in several months. And then as far as your regulatory question, we can market this thing without regulatory clearance but we plan to submit for FDA clearance because we believe this will be used by many people as a health product as not just the wellness product. So we might have two versions of it, like we do today, the Rx version and the consumer version.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK. That's helpful. And then maybe just last one Sound United it obviously looks attractive from a valuation standpoint by Medtech standards. But can you just, Joe, maybe highlight some of the risks involved in this deal that you see?

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Yes. Yes. Of course, the risks involved if we don't keep the management team if we lose some of the key people that we want to keep. The risk involved.

I told you about a decade ago where we launched iSpO2, this new market could be a mirage for a narrative. We're seeing it more as a narrative. And it looks like COVID helped cement that vision instead of it being a mirage, so we feel wrong about that. But one thing I can tell you, regardless of where we hope to take this to the home.

We think everything we're going to do with Sound United will make us a better company for hospitals and professional caregivers. So whether it becomes a home office or a second base, it's going to help us be a better company to our current customers.

**Jayson Bedford** -- *Raymond James -- Analyst*

OK. Thank you.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Thank you.

**Operator**

And, gentlemen, it appears that is all the questions we have for this afternoon. Mr. Kiani, I'll turn things back to you for any closing comments.

**Joe Kiani** -- *Chairman and Chief Executive Officer*

Well, I want to thank everyone for joining us today. I'm looking forward to our Analyst Day, where post-closing we can share with you more. By then, hopefully, you'll also be able to play with the Masimo watch yourself. And maybe buy some of it yourself.

But bottom line, this is an exciting time for us. And this is the first major acquisition we've done post roughly seven smaller tuck-ins that we've done which every one of them has been successful. But this is a wonderful opportunity for all the possibilities we've been hoping for. So have a wonderful day and rest of your evening and we'll see you shortly.

Thank you.

**Operator**

[Operator signoff]

**Duration: 52 minutes**

# Call participants:

**Eli Kammerman** -- *Vice President of Business Development and Investor Relations*

**Joe Kiani** -- *Chairman and Chief Executive Officer*

**Micah Young** -- *Executive Vice President and Chief Financial Officer*

**Matt Taylor** -- *UBS -- Analyst*

**Rick Wise** -- *Stifel Financial Corp. -- Analyst*

**Mike Matson** -- *Needham and Company -- Analyst*

**Jason Bednar** -- *Piper Sandler -- Analyst*

**Jayson Bedford** -- *Raymond James -- Analyst*

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MASI

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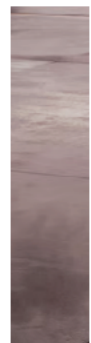


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# **EXHIBIT I**

**S&P Global**

Market Intelligence

**Masimo Corporation NasdaqGS:MASI**

# **Analyst/Investor Day**

**Tuesday, December 13, 2022 3:30 PM GMT**

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# Call Participants

## EXECUTIVES

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*Chief Operating Officer*

**Blair Tripodi**

*Chief Operating Officer of Consumer Division*

**Eli Kammerman**

*Vice President of Business Development & Investor Relations*

**Joseph E. Kiani**

*Founder, CEO & Chairman*

**Micah Young**

*Executive VP of Finance & CFO*

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**Unknown Analyst**

## ATTENDEES

**Unknown Attendee**

# Presentation

## **Eli Kammerman**

*Vice President of Business Development & Investor Relations*

Good morning. I'm Eli Kammerman, VP of Investor Relations here at Masimo. I'd like to welcome you all to our 2022 Investor Day today. We've got a really full action-packed and information-rich day planned for you. We think you'll get a lot out of it, and it will definitely will have been worth your while to come out here to see things that people have not seen before and that they won't see on the webcast.

Before we begin, let me cover a couple of important things. Firstly, the restrooms. The restrooms are through that exit door on the right and just follow the wall around to the right.

Secondly, you probably saw that we have breakfast right outside these doors and coffee is in the back.

Here's our agenda for today. As you can see, we're going to have some presentations to start. We've got a coffee break at 9 o'clock. You'll come back for some more presentations as well as a physician panel, and then we'll break for a combination of lunch and rotations through demonstrations.

We think you'll really get a lot out of that. You'll see many of the new products we've been talking about for a long time, and you'll be able to ask questions of our subject matter experts about the products. Then we'll come back for some more presentations and a wrap up with open floor Q&A.

For today, we will be discussing forecasts and projections along the lines of what are described in our safe harbor statement. Please keep in mind that these forecasts and projections involve risks and uncertainties, and these are further described in our SEC filings.

In addition, we will also be discussing non-GAAP financial figures, the definitions for these non-GAAP figures are also contained in our filings with the SEC.

Now I would like to introduce our founder, Chairman and CEO, Joe Kiani.

## **Joseph E. Kiani**

*Founder, CEO & Chairman*

Good morning. Thank you all for coming. Really appreciate you making the time to come here. We're excited to have to stay with you I know it's been a long time coming, especially since we announced the acquisition of Sound United. But I hope you believe it was worthwhile. I have one thing we're doing differently here that I want to tell you about today, we're going to show you a little bit about some future stuff. Things within the next year, we're not going to go beyond that, but still, it's not our style. We'd rather just introduce the product, then talk about it. But I think given that there was some nervousness about where we're going, we decided maybe it was the right thing to do to kind of change how we do things a bit.

I started Masimo, gosh, February, 1989, almost 34 years ago. And our mission really from almost the very beginning, was to improve patient outcome and reduce cost of care by taking noninvasive monitoring to new sites and applications. It's about to come to full circle. It's about to be totally envisioned. I know some of you are very clever. You saw some of our filings for trademarks like STORK and you saw some of the videos we just showed you today, and you put some of it together. But there's a lot more there's a lot more. But that mission we have accomplished to a great degree, but we've saved numerous lives. We've improved numerous lives.

I don't know, probably tens of thousands of babies no longer a blind because of SET pulse oximetry. And with hemoglobin, we've done so much already and so much more to go. But the stuff we're about to do now, it's really going to help us just take things to a new level, the degree of lives will touch. The amount of hopefully lives will save, it will be tremendous. And we couldn't have done it without a decade ago putting into motion the products you're going to be seeing today and in the next 12 months and beyond. And we couldn't have done it, as you'll see, without bringing in the Sound United team to help us.

We have -- we were engineers at the time when we started Masimo. We were good at math, we were good at adaptive filters and signal processing. But we've immersed ourselves now. We are immersed engineers, and we understand the problems of our customers, whether it was overburdened clinicians, whether it was poor handoff communication, whether it's recognizing that opioid-induced respiratory depression is just not something that happens in hospitals. it happens at homes.

These are the things we began recognizing and we wanted to create solutions for. Now today, we've got a lot to show you. Blair will come up here and we'll talk about first about Masimo Consumer Health. With that, we'll show you some new products, some you've already seen like the W1 and Freedom that will be coming out. We're going to show you STORK which is a new baby monitor that should be incredible. We're going to show you our new adaptive acoustic technology for creating earbuds that not only help people hear music better, but eventually hear their environment better.

And we're going to talk about the Masimo audio brand, this iconic set of products that have been around some for 50, some for over 100 years that people keep going back to because they are the audio company for high fidelity we're going to take some of the things they created like HEOS, and we're going to turn it on to turn them into health hubs.

In the past couple of years, we put about maybe 1,000, 2,000 health hubs out there as we rolled out safety net for COVID. Today, 20,000 devices have been turned out to become health hubs. And in 2023, about 4 million devices will become home health hubs, Bilal will come out and talk to you about our core technologies, SET, AAT, and we'll talk to you about what we're doing for hospitals, some of the new products we've developed. In the last few days, we've announced some incredible products, technologies we've been working on for a decade like sepsis index, more people die of sepsis than anything else, and early detection of sepsis can save lives. And there's never been a good tool, a tool good enough to have the sensitivity and specificity you need to be able to react to the onset of sepsis.

Hydration index, we began showing athletes our pulse oximetry over a decade ago, and many of them told us they use it for training, knowing when to stop, do a massage day as they would say, and when to push, but every one of them said, if you could only let me know about my hydration. Well, we did a full market release of hydration index a few days ago. I am truly excited about that.

I spent a little time in hospital recently. And there's a lot of learn from that. I never had the patient's perspective. And first of all, the one product that became my favorite product was the W1. It was easy to wear. It didn't tater me. It didn't pull on me. And I had at the time HI, and it let me know about my hydration. And I used it to titrate myself. But I'll tell you, I also learned there's so much more we need to do for hospitals, especially in the ICUs, especially in the neuro ICU, and not just getting the current products we have like SedLine and O3 to become ubiquitous there because it did help me and it should help more people. But the tools they really need that they're using corollary adjacent products to try to get some insight with.

You know what else, I got out that experience, how I was able to complete my health care at home. The step-down unit became my bedroom. Why? Because I had the W1, I had the radius T for my temperature. And importantly, I had a service team here that watched over me. One day at 04 00 in the morning, they rushed into my bedroom because they had seen by deterioration, fortunately, it was fine. They were a little over [indiscernible].

But look, hospitals are great. In fact, I used to say, the last place I want to be in the world is in a hospital. Well, as you see Irvine where I was, I was happy to be there. They gave me excellent care, protocolized patient safety in their head, ICU doctors that collaborated together to give me the best care nurses that care with empathy. But I'll tell you, going home was important.

At the hospital, you have the risk of hospital-acquired conditions like infections, MRSA, and you've got that sinking feeling when you're in a hospital, a home along -- around your loved ones, around your environment with the right technologies, you can get better.

And I noticed my doctors worried about my pulse rate, my perfusion because they didn't know my baseline. Now imagine when W1 becomes ubiquitous or freedom, whichever. When someone walks into the hospital, their historical data will transfer to our devices. So people will know what my baseline is. And they'll know whether I'm doing is good or bad, and these are the things we don't have right now, and these are the circles we need to complete.

Now after Bilal talks to you about that. We've got an amazing physician panel. These are incredible doctors with great reputation that have transformed health care. They're going to talk to you about telemonitoring and why Masimo is an essential piece of that. Because if you can't rely on the technology remotely, why would you put it out there?

When I started Massimo, monitors needed someone to monitor. Really nurses and doctors are monitoring the monitor, not the patient. And by solving the false alarm problems with patient motion, low-perfusion which, by the way, also solved the problem with pigmentation, which you've heard a lot about. But by solving those, we make monitoring reliable. We did what people didn't think was possible to make monitors work good enough to save lives.

Some of you invested in our company and told me that you don't invest in health care unless those products can save lives, and you were surprised that a monitoring company had saved lives, and you've come to us for that reason. Yes, we did. And you know what? By making it so good, clinicians revolutionize care. They learn -- they've invented things we did not dream of, like using it to reduce eye damage in the neonatal ICU, using it to monitor healthy newborns for congenital heart defect, which before they would miss and



sometimes babies would go home and they would die because the parents would mistake their heart defect for fever or a flu, using it to save lives in the postsurgical wards from opioid-induced respiratory depression. And I remember the call I got from one of the physicians here 2 weeks into Covid, he calls me we've got to take your devices into the field because we have too many patients coming into ICUs. We can't handle them, but we can trust your product to let us know when to bring those patients back in.

And literally, within a month, we stood up that technology, FDA cleared it, and you'll hear more about the statistics of that. You'll do the tour, which I hope you'll take the chance to really go through it all, I think some phenomenal takeaways from that. And you'll come back for the, I guess, the punchline.

Micah will walk you through the financials. And it's good. We have an amazing trajectory. Just Masimo Healthcare on its own has a path of growing small double digits with revenue and earnings faster than that. Masimo consumer audio has a similar trajectory. But Masimo Consumer Healthcare gives us a chance to grow in order of magnitude, if not more our revenue and our earnings. It is not like it's going to be easy. We're not saying it's a straight line. But look, we've overcome bigger obstacles when we started Masimo.

And now we have this incredible team, the best team I've ever had, nearly 10,000 amazing people, from people working down on the factory floor to people running the company day in and day out. We have a reputation that's been hard fought and hard won, and we've got some revolutionary products. We've announced some of them already. We're going to see some more today.

So I'm confident we're going to get there. We accomplished more than, I promised you all 20 years ago and 30 years ago, and I hope once again will accomplish more than what I'm telling you today we're going to do.

Now at the end of Micah's presentation, he'll tell you why we acquired Sound United. We've talked about it before, but we put it on a slide. So you'll see why we acquired Sound United. Look, we've told you about a 20,000 distribution channel. We told you about the engineers, nearly 400 engineers, but they have about 500 sales and marketing professionals that would have taken us maybe 5 years to a decade to hire even if we could. These people love what they do. And we're going to take what they've done and take it to a new level. Why? Because they're all excited about saving lives and going beyond just improving lives, but saving lives.

What we're about to do with the launch of W1 and E1 we would have had to invest a lot in sales and marketing. But now it's part of what we own. And it has a positive EBITDA. It's got -- we don't have to take a hit in our earnings to go and take a risk of what's about to come. And yes, it is risky. I will never tell you anything we do is not risky, but I've learned when you take risk, you actually improve your chance of survival, if not the ability to thrive.

So these are calculated risks. We did not buy Sound United for 10x revenue or 20x revenue. We bought them for onetime revenue, 8x EBITDA, with practically our own cash. We did not leverage this company. And we looked at over 200 companies before we bought Sound United. Many in the consumer side but none of them had the iconic brands that they have. What we have in our hands right now is rice krispies and corn flakes. People keep buying them. And we just can't screw it up and we don't intend to. We intend to actually take it to a new level. But we couldn't have gotten that with some of the new companies that have emerged that could be gone tomorrow.

And by buying Sound United, we now have another \$1 billion business that on its own will do well despite God forbid could ever happen to Masimo health care. We're in a regulated industry. I could say something here today an upset someone and they could come shut down my company. That happens. So I won't say anything. But I got to say, I have I've never felt better. I am ready to commit another 5 to 10 years of my life to this because I just don't think because we should, because we could, because if we don't do it, I don't think some of the stuff we're going to do will ever come out.

So many people put up poise, put out things that don't really work. We won't do that. We don't do that. So I'm going to come back later, I'll have a chance to hear everything I care hearing and respond to your questions, but I just want to tell you, we wouldn't have made it a few years ago, people that shouldn't have believed in our vision, didn't believe in it. And when we went public, some of you helped us become a public company and supported us.

So this relationship is critical. Your belief in what we're doing is critical I'm one of the largest shareholders, if not the single largest shareholder in this company. And the only difference between me and some of you is that I just don't look to what's going to be best in one year. but what's going to be best in 10 years. And that 10-year window that I have, if you take it with me like you did at the beginning when you invested in us, you're going to be happy you did.

We had people that build on us. We have people that stay with us, those who stay with us. They did well. They either became wealthier or they became wealthy. And what we're about to do, where we're about to go will hopefully make an incredibly valuable company. I guess to our investors, which without we wouldn't get the chance to do what we do but to people. You're going to maybe tell me I'm crazy, but we want to usher in 22nd health care.

We want to complete the circle from home to hospital to home. And we want to get care to be more efficient, more effective, more precise, easier, thank you all for coming. I'm so happy that you're here. And I hope the rest of the day, you'll find worth your while. Thank you. Thank you.

**Blair Tripodi**  
*Chief Operating Officer of Consumer Division*

Good morning. My name is Blair Tripodi, and I'm the Chief Operating Officer for Masimo Consumer. Thrilled to be here in front of you all today. And thank you, Joe, for that great tea up, we are going to go through a lot in the next hour, take you through a lot of our thinking in the early days since the acquisition and bringing it full circle back to how we're going to continue to drive our messaging into the home, Joe's vision of bringing health care to the home and of course, continue to dominate our own audio business as well within the home.

Over the past decade, I've been fortunate enough to work with some of the greatest audio brands in the world, from Bowers & Wilkins to Polk Audio, to Marantz and Denon. These brands represent over 200 years of audio history and have been standing for something in consumers' lives with a differentiated market positioning, a premium and luxury market positioning and have provided a point of excellence for our consumers for a long time, generations.

Today, we're going to talk about the connective lines from that story to our new story and our new challenge with Masimo Consumer Health. We're going to build the bridge for you on how we're going to connect this brand from the hospital into the home. We're going to talk about the muscles that we bring to this equation with the Sound United team integrating into the Masimo team. And all of the resource that, that will be deployed against our strategy.

We'll talk about our qualitative and quantitative research to date and the market segmentation and points of differentiation, we feel we have the opportunity to win. We'll dive into some great product launches, and we'll share more detail, which will be supplemented later in your demonstrations in the vignettes out front in the lobby and in the back in the audio rooms to give you more insight into the operation that we are bringing to bear here today between STORK, Freedom, B1, W1, et cetera. And then we'll close with how we -- and this is very important, as Joe mentioned, how we'll maintain our position in the home within the audio space because we do believe that there are many green shoots there to come for our brand, and our business overall.

So what does Masimo stand for in the consumer health space. or said differently, the answer is, I don't think consumers really know who we are yet. This brand has been curated for decades in the hospital, and it stands for innovation, unparalleled ethics and product excellence. Three amazing pillars to stand on as we begin our journey into the consumer space, that DNA is there for us to bring forward into our own Masimo consumer journey.

So what will Masimo stand for in the minds of consumers? Or said another way, what difference will we make in their lives. Answering this question is critical. As we enter a crowded consumer health space with the likes of Samsung and Apple and Garmin, coming forward to the consumer with the messaging of what we represent, why we are built on a legacy of quality and unrivaled innovation. And most important, why these consumers can trust our brand is critical to our success.

Since Joe started the company over 3 decades ago, we have been known for improving lives and the outcomes for patients. This has made us quite formidable within the hospitals and clinicians around the world. And importantly, it has built that foundation of quality, which we'll springboard off of within our consumer health messaging.

This is an image from just after the pandemic began. This is a fellow named Leonardo Fraser, and he appeared on CNN in April of 2020, stating to the world that this right here saved my life, and that's why I'm here today. He's talking about the Masimo SafetyNet and our technology. You have to admit this is a priceless way to begin our consumer health journey.

We improve lives for patients and their loved ones every day. We empower athletes with the right information and data to optimize their training, and to compete and complete their -- I'm sorry, I think I'm going to skip the slide, excuse me. Yes. Sorry. Sorry, the copy looks like it might be missed up. We improvised for patients and they'll have ones every day. We empower athletes with data and analytics to help optimize their training and performance every day. And we make people feel safe.

In a world where people are feeling more responsible than ever, for their own health care, we can help them live healthier and happier lives. So how do we take this heritage, our DNA and create a differentiated position. We lean into what we're already known for. We lean into our story. We make it bigger. We make it more emotional and we connect to consumers. We have an opportunity to take our engineering prowess and combine it with our ability to make a huge impact on the health and happiness of people, not patients, people, people like you, people like me, people all around us, our family and friends. This is what we do.

Masimo is engineered for a beautiful life. This positioning draws directly from our heritage in technology and innovation. Our ability to invent the uninventable and our passion for improving lives. It connects the practical side of our company with the beauty that we are all looking for in life. There is no problem we cannot solve and no person we cannot positively affect through our unique products, you can trust Masimo. This strategic foundation will guide everything that we do. It will help the Masimo Consumer Health brand in ways that no other competitor can. I'd like to share with you a short positioning video that will demonstrate the type of content and messaging that the strategic North Star will guide us in starting to inspire our consumers.

[ video presentation ]

Through that positioning video I hope you connect with a little bit more of the DNA of what we're trying and aspiring for from a storytelling aspect with our company. This sets up our brand architecture, which you can see here with Masimo Hospital and all of the products we build for our medical and practitioner-based products. And then our home side of the business, which includes our new health care business as well as our audio business. These worlds are already starting to come together in amazing ways, which I'll be showing you in the following slides.

Achieving this position will require some important perceptual shifts from where we are as a brand today to where we are heading in the future. Our foundation of innovation, product excellence and our carrying ethos will not change, but it will become clear that we are a brand built to help people get the best out of life, not just the medical brand for patients and care providers. People will see our vision, come to life beyond the medical arena, showing life, not as it is, but showing your life as it could be.

Shifting into our next fundamental to building this brand. I want to share with you a little bit about, as Joe alluded to, the Sound United overlay and input into the organization. We have 4 scaled platforms that we'll talk about here in a minute that we think add a lot of expertise and knowledge and know-how, especially as we go to attack a consumer marketplace.

The first is our scaled engineering platform. Together with Masimo, we now have an engineering team of over 800 staff members, skilled in building and developing the most innovative and consumer-friendly products imaginable. In addition, that group represents over 1,700 worldwide patents in both audio and health care, operating through 7 dedicated factories. We are armed to develop the most innovative and creative products imaginable in this space.

Our second pillar connected software ecosystem. Complementing our hardware platform is our connected software ecosystem, which allows Masimo Health and 3.4 million devices in the field today to connect to the cloud and connect consumer health care information to the people that matter, enabling a worldwide connectivity of both entertainment and telecare services. Masimo and Sound United bring to the table a formidable software platform, which will be merged. Will ultimately create the home software platform for the future.

As Joe mentioned, in 2020, Masimo launched the home, the Masimo SafetyNet hub with a little less than 1,000 devices in the field. Today, as Joe also mentioned, we're proud to announce the activation and a significant integration milestone 6 months post merger, where we will turn on over 23,000 Denon Heos units, which will behave as an extension to your Masimo Health Cloud and connect your data through your W1 device or other Masimo creative devices to the cloud.

By the end of 2023, we will turn on a grand total of 4 million devices worldwide. Again, connecting all of your Masimo connected systems to the cloud, to your clinicians or your loved ones. An amazing feat by the end of next year.

Our third pillar is our global marketing and brand framework. Sound United was operated as a brand-led portfolio with independent teams of staffers dedicated to curating the product plans the global marketing strategies, the go-to-market strategies and the channel and distribution strategies for those brands.

Those teams are dedicated at our global center to help us maintain a differentiated position to our consumers while taking advantage of our shared platforms in region. We are implementing the same strategy here with Masimo Consumer Health.

We have stood up a Masimo Consumer Health organization. That team is working diligently between the two organizations to build the best products to create the go-to-market strategies and the consumer demographics to drive us with our product road map and our marketing strategies. All of that will be handed over to our regional teams who will localize that content, create local strategies globally for us to execute and make the most and biggest bang for our dollar.

As Joe mentioned, we have over 500 individuals in region around the world dedicated to this portfolio approach, and it's a true weapon as we head forward in our consumer health plan. This is already paying off today. What you're seeing here is our first effort to integrate our creative services organization into the W1 program. These are advertisements, digital ads, trade marketing, which we

have assisted the Masimo team in rolling out to already begin to overlay that specific consumer appeal to the W1 product launch. Very excited for this and very excited for the future within consumer health.

And our last platform advantage, as also Joe alluded to, is our omnichannel go-to-market. At Masimo Consumer, we operate in over 20,000 points of distribution worldwide. Over 60% of our global revenues in the Audio space come from the international landscape. There is no consumer electronics channel partner we do not work with today. This also includes the world of [ custom ] installation which I think will be very important as we consider the ramifications of home health rollout and integration into home automation platforms in the future.

Our third area and third, fundamental to building the consumer health strategy is understanding our market movements and segmentation. Since the acquisition, we've spent a ton of time breaking down who this consumer is and where they want to shop, what's important to them, breaking down their demographics and psychographics to help build our personas as we go and try to attack this market.

Aspirational brands understand and embrace the fact that health and well-being have become the new luxury. Luxury is no longer about selfish, tangible possessions and actions. It's about the intangible values that define us as people like authenticity, transparency and connectivity. People who live a sense -- a balance in their lives are healthier and happier and more fulfilled.

And as we studied this group, through our qualitative and quantitative research, six key brand tenets became evident for our implementation. The first, consumers view health as an extension of their lifestyles and their values. The second piece is they believe knowledge is power and they are not shy about stating it. Third, of course, they care about what a product does. But they also care about how it makes them feel. They do the research, not just on what the product features are but on the brand themselves and what they stand for. They're curious about that brand story.

And finally, quality and design, go hand in hand. And you'll see later in the audio vignettes we prepared for you, how important design is and you'll see in the wearables vignettes, how important design is for health care as well. We believe we are positioned well to hit all of those points. Taking a step back, however, and looking at the landscape, the competition -- some very interesting insights came from the study and what's in the market today.

Our view is that many consumer tech brands today are offering information and guidance they are not qualified to offer. Consumers told us that they will trust information provided to them continuously and accurately from a company born in a hospital before they will trust a company that makes their washing machine or their laptop. This void is the consumer health space that we feel our team can fill. We're going to approach this market in four segments. These segments cover a very large cross-section of adults and children across the world who will be looking for products to address very specific needs, around accurate and continuous health care monitoring.

From daily life to athletics and sleep, we are focused on providing accurate and continuous monitoring that allows humans to live and more fulfilling a happy life in the category of vulnerability, recovery, health and wellness and sport.

We're going to attack this through three category segments. In Wearables, which includes hearables, sensors that will combine with consumer products to enable monitoring and flexibility through our connected [ light ] platform, products that follow us through life, enabling monitoring and seamless access and telemonitoring, allowing the ability to share data with your professional caregivers or your loved ones.

Now let's get into some of the fun stuff and some of our product launches happening in 2023. As Joe mentioned, as many of you have already seen, I have introduced you to STORK, hospital quality in baby monitoring at home. Parents just want to know that their baby is safe and sleeping well. The existence of SIDs or a variety of other newborn health conditions make the first year of life for any parent very troubling.

Given the need for a solution, that helps provide peace of mind throughout the night, we feel that STORK can address many more than the \$1.5 billion baby market monitoring market today and eventually attack the over 130 million babies a year born around the world. This is an opportunity for us to innovate in a category by providing unparalleled accuracy and insights from a trusted player, leveraging our go-to-market expertise and capability to attack a category that is concentrated in a handful of retailers and a handful of channels worldwide.

Let's take a look at how the scaled platforms I mentioned earlier can support our STORK launch going forward. From a scaled engineering perspective, the STORK product delivers best-in-class vitals monitoring while monitoring -- while providing an alert system that parents can trust. As you can see, we've focused all of our feature sets on true consumer insights and what parents actually want in a baby monitor.

Through its continuous and accurate monitoring, STORK will give babies a voice by providing actionable data to family and parents and healthcare professionals alike. Alongside the STORK bootie and the camera and the hub, which you'll see later in the vignette in the lobby is a robust application experience, which will work within our broader Masimo Software Healthcare Solution. The STORK app will allow parents to have universal access to their baby's videos, sound, vitals.

The Stork gap is geared to not only serve as a health hub itself, but also to empower parents through positive reinforcement, a video and a knowledge library and through its connected software ecosystem allow parents to share the greatest and cutest memories on social media. We've created this positioning video for STORK to give you a little bit of insight on how we will bring the product to market. This is not a commercial. This is a positioning video. This is all about creating peace of mind and bringing hospital quality monitoring to the home.

[Presentation]

### **Unknown Executive**

I hope that gives you a little taste of where we're taking some of this messaging with the consumer. And I hope it gives you an idea of how we plan to win in that space and take the hospital into the home.

Our third pillar -- sorry our fourth pillar is our omnichannel go-to-market. From telling that great compelling brand story, which we started to see some initial concepts on there now to targeting the very specific channel base that these types of products represent, we have a very focused approach and opportunity to win in the baby monitor market.

We will also make sure that we are using and leveraging one of our strongest muscles, which is our D2C business. We have a robust D2C team within Masimo Consumer and we will do our utmost to drive consumers for education, but to also compel them to buy online through our own channels. And then there's winning on the shop floor. We take Masimo to the shop floor for the first time in this case and training, empowering and educating through our team of global brand activation team members and providing best-in-class merchandising solutions, winning at the baby registry are keys to our success as we roll out Masimo's first consumer healthcare product in the baby monitor market. Super exciting day for us today to be sharing this product with you all.

Pivoting to our next tranche of launches. We're going to provide here a brief look into our wearables and hearables outlook, again, with many of these products launching in FY '23. We recently entered the wearables category with our first health watch, the W1. In this segment, we will continue to leverage our best-in-class sensing capabilities across a variety of form factors to provide incredible insights through continuous and accurate monitoring. This foray into wearables is an important step in our consumer health journey as we -- as the data we track from these wearables will be invaluable going forward in our connected software ecosystem at home.

We are also excited to discuss the opportunity in hearables, \$85 billion market, combining the traditional over-ear, in-ear, ear buds and headphones from today, along with our hearing enhancement products and opportunity. Here, we will leverage our heritage in providing great sound through our branded portfolio of premium and luxury products together with our Masimo Adaptive Acoustic Technology, which we'll be talking about here in a minute. All of this to create a world-class listening experience for our consumers.

Our best-in-class health sensor for wearables currently being deployed in the W1 is launching in the premium consumer watch segment format with Freedom and B1. While the smart watch market is crowded, we feel that the watch with its health and wellness focus will open doors to new consumers. Rather than health as an afterthought, the fidelity of the monitoring will allow us to generate new insights, alerts and indexes the market has yet to see.

Our wearables will set a new standard for accurate and continuous monitoring as showcased in the W1. While adding feature sets that modern day consumers expect, such as LTE connectivity, premium design, form factors for sleep and innovative features, as Joe alluded to, with hydration index, which are made possible by the incredible technology in our sensors.

And finally, although we are still too early to share marketing concepts, we've identified key consumer segments that rely on the utmost accuracy in their continued health data. As we think about the target audience for Freedom, it's important that we start close to our DNA by targeting the hospital ecosystem via the W1 and expanding our scope towards health and wellness gatekeepers, fitness coaches, influencers, partners like managed care facilities.

With this approach, we can provide the right hardware and subscription solution to each of the key mass market demographics. These groups represent a large subset of the U.S. population. It also represents a large subset of the global population, whose needs are not met by current offerings today. For these groups, accurate and continuous monitoring matters. And when it comes to improving performance, we're just maintaining an accurate representation of their health any given day.



And finally, a little bit on our audio trade . As we begin to launch these exciting products in consumer health, it is imperative that we maintain our leadership position in Audio to maintain our strategic advantage and gateway into the home. Our audio brands have been relevant in consumers' lives for over 200 years. Our portfolio of brands are positioned from the mass premium with Polk Audio to the ultra luxury and performance in Bowers & Wilkins and Denon.

Our business in Audio is global with over 60% of our turnover coming from outside the United States, providing us access to international markets for the healthcare. We are also constantly innovating our product offering, not standing still and not changing. We are leveraging our brand heritage to open up new gateways into categories and products that are the future. The value of our brands as strategic assets cannot be underestimated.

And I hope you enjoy experiencing these later on in the demos this afternoon. Historically, our brands have been predominantly focused on the home. However, we have the right to play in this \$85 billion hearable marketplace where we combine our brand legacy, our strength in building world-class audio with the likes of the new Masimo Adaptive Acoustic Technology, providing hearing solutions for every consumer. To accelerate our approach into this category, we are launching at the conference today, our Masimo AAT. This technology allows us to map an individual's hearing by sending pulses into the ear and upon receipt of the return signal, it allows us to profile a consumer's specific hearing, which we then, in turn, optimize through the device to whatever content they're listening to.

This will allow every consumer to enjoy their favorite music with the same rigor as the artists originally intended. And in the future, it will allow us to build a suite of products to enable optimal hearing for all consumers worldwide, no matter what application. In addition to our growth in hearables, we will continue to focus on the over \$6 billion premium and luxury segment of the home.

This segment is our bread and butter. We leverage our incredible network of engineers and innovators of our factories and our worldwide sales and marketing and brand efforts to drive and develop this space. Our focus is to maintain each brand's unique position in the market and to create new distribution models, where we can bring the most exciting global audio programs into the home.

And finally, this omnichannel go-to-market capability allows us to sell and market our products across all relevant channels online, over 20,000 points of retail distribution locations around the world, custom installation, third-party distributors, owned websites and selective partnerships. Given the scale of our commercial operation, we're able to implement portfolio selling while offering our retail partners incredible efficiencies in the operating process.

Thank you for the time this morning. Thrilled to be able to present and share some of these insights with you, look forward to your questions later. Speak to you soon. Thank you.

**Eli Kammerman**  
*Vice President of Business Development & Investor Relations*

All right, everybody. We're finishing that presentation a little bit earlier than expected. So consequently, we will take our coffee break a little bit earlier as well. Please take your time out there, enjoy our food selection. And please be back here at 9:00 -- all right 8:45 will be the resumption of our activities here. And for those of you on the webcast, please note we are continuing at 8:45 Pacific. Thank you.

[Break]

**Unknown Executive**

All right. Welcome back, everybody, if you can find your seat, please. Thank you.

**Bilal Muhsin**  
*Chief Operating Officer*

All right. Good morning, and welcome to Masimo. My name is Bilal Muhsin. I'm the Chief Operating Officer, and I'll be covering our professional healthcare segment today. Let's start by talking about a large and expanding installed base. It's truly amazing what we've done. We would have shipped by the end of the year 2.5 million of our monitors and technology boards over the last 10 years. This is truly a huge accomplishment as it continues to grow year after year even after the 2020 COVID year that took a big bump.

We do this by providing technology in our own monitors that we distribute into hospitals directly or with one of our 124 partners that build devices and incorporate our technologies within their devices, whether they'd be monitors, ventilators, defibrillators, that go across the continuum of care.

Let's start by talking about pulse oximetry, our biggest segment with Masimo SET, Signal Extraction Technology. This is a \$2 billion market growing at 3% to 4% annually, where at Masimo, we have a long-term annual growth of 68%, 2x over category. Let's see why. Today, over 200 million patients are monitored by Masimo SET today in hospitals and at home. It's in 9 out of the top 10 hospitals reported by U.S. News & World Reports use [house wide], all 10 of them use Masimo in their hospitals today. And we have over 100 independent published studies showing the power of Masimo SET Technology versus any other competitor.

It starts with the clinical evidence and its ability to read through motion and low perfusion. That is truly the most difficult condition for optical technology like pulse oximetry. In a study by a Journal of Clinical anesthesia, it showed the power of Masimo SET not only to reduce false alarms, 5% against the Nellcor N 600, their latest technology at 28%, but it also did not miss any true alarms, only 3% compared to 43%. So it's actually picking up the alarms and not just masking it by increasing averaging time.

In anesthesia and analgesia, it was compared against 20 other technologies and showed the power of its accuracy during motion conditions. The evidence continues with the latest studies coming out on skin pigmentation, we recently released our Journal of Clinical Monitoring and Computing, our own study, showing that Masimo SET showed no significant clinical bias between black patients and white patients, that's dark pigmentation and light pigmentation.

Also in an earlier study out of the Journal of Pediatrics, it showed that it only had a 0.8%, remember, oximetry as shown at full digit on a monitor. This was at 0.8% on -- in terms of a bias between black and white patient versus the competitor of Nellcor at 3.9%. It is the only pulse oximetry technology out there that has been shown to show these positive outcomes. Joe and Blair alluded to what it was able to do with retinopathy of prematurity, ROP rates. This is in the NICU on these babies that are born prematurely in terms of how they titrate that oxygen to make sure they don't go blind at 80% reduction in ROP rates.

For critical congenital heart defect in the labor and delivery, screening these babies pre-ductal, post ductal measuring the different limbs and making sure there's not a 3% delta in the oxygenation or below 93%, it's able to screen at 93%. We have over 6 published studies with CCHD screening, one of them over 200,000 patients showing this outcome.

On the Med-Surg floor, this is a 10-year study now out of Dartmouth-Hitchcock showing 0 preventable death or brain damage over 10 years, 60% reduction in rapid response team activations, 50% reduction in ICU transfers and saving over \$7 million annually as they deploy this against all of their Med-Surg units.

More recently, at home with Dr. Pronovost in UH, using our technology at home showed 77% fewer deaths, 87% fewer hospitalizations and saved over \$11,000 per patient cost. The power of all of that technology we talked about has been improved with what we talked about last time with our RD sensor taking that accuracy from 2% and 3% down to 1.5% and now with Radius PPG being in a tetherless wearable format for patients, allowing them to be comfortable, untethered helping clinicians and nurses reduce false alarms.

A lot of the alarms that come in are due to technical alarms. Simply [forgetting] to plug in that patient cable is a big deal in hospitals. This helps with all of that and allowing patients to be mobile in hospitals doing their 6-minute walks and everything else they need to do, which improves their health over time. This has been a very powerful tool during COVID at home and on the general care floor.

Now the addressable market we talked about was a \$2 billion market. Post COVID, all hospitals have realized that they need every bed to be monitored. This might not happen tomorrow, but over the next couple of years, this is for sure going to happen where every bed will be monitoring. That takes our market from a \$2 billion market space, to a \$3 billion market by adding over 1 million beds on the general care floor.

What gives Masimo SET the right to win and continue to win not only by expanding with our installed base, but continuing to win customers from our competitors. It is those outcomes that we've talked about clinically. That give it the right to win, best-in-class accuracy, the introduction of the tetherless Radius PPG Technology, and one of the most important things is our platform provides a pathway to not limit it to a 2 LED solution, which were pulse oximetry is today, but allows them to expand into further noninvasive monitoring technologies on the rainbow platform. That combined package solution makes Masimo SET Technology, a leader in hospitals today and will continue to be so looking forward.

Moving to our rainbow platform. You guys are all familiar with our SpHb, our continuous noninvasive hemoglobin; ORi for oxygenation; and now the addition of LiDCO. LiDCO is a minimally invasive technology that connects to the A line and that allows for continuous monitoring of cardiac output on the Root platform before the end of the year.

This market is a \$2 billion market opportunity with our long-term annual growth rate at 10% for Masimo. Let's look at some outcomes from SpHb. 41% reduction in RBC units transfused for high blood loss cases. That means when they're trying to transfuse, they can



look at that real-time trend of hemoglobin and clinicians can decide instead of sending something to the lab and waiting for 15, 20 minutes.

During surgery, they can see the stabilization of hemoglobin and decide how much blood to actually give or how much does the patient actually need. Low blood loss cases, it had an 87% reduction in transfusion rate, meaning most of these patients did not require transfusion. By having that real-time information at their fingertips that allow clinicians to make the right decisions of not having to really put an organ, which is blood into that body.

Most importantly, as well out of [indiscernible], this is during ERAS protocols. They use hemoglobin and PVi with their protocol and they reduce 30-day mortality by 33% and 90-day mortality by 29%. Now what was unique about this [indiscernible] is that the administration decided not to deploy even after seeing these results. They removed the technology, the rates went right back up.

Very smartly, they reimplemented and the rates came right back down, showing the power of what the technology was able to do with their protocol. SAPBM, which is the Society of Advanced Patient Blood Management in 2021 released a white paper. It's almost like a guideline telling clinicians the power of continuous hemoglobin, the power of that real-time trend in making timely decisions for their patients. How that it's not just a number, but how to improve outcomes using real-time information from hemoglobin. This is a powerful tool when we walk into hospitals today talking about the importance of SpHb.

And you guys know what Masimo Innovation never stops We've just announced our 12 [Lambda], 12 LED RD super sensor. This now allows all of the rainbow parameters to be on a single sensor. Everything from the SET parameters that you see up there in gray bubbles; the rainbow parameters, including SpHb, SpCO, SpMet all in a single -- single patient use sensor, allowing this sensor now a single center to be used across the continuum for hospitals. What -- our rainbow pulse oximetry has is unrivaled clinical outcomes, continuous innovations as we introduce new sensors. And now with the power of adding LiDCO, you have the continuous cardiac output of the patient plus the oxygenation information of the patient, giving clinicians for the first time in real time a view into the oxygenation state of the patient -- of the oxygen delivery state of the patient.

Moving to our brain monitoring with our SedLine and O3. This is a \$300 million addressable market growing at 5% to 7% annually, where at Masimo, our long-term growth rates at 20%, 3x over category. What SedLine has brought to the table is an ability for clinicians to provide anesthesia to patients and monitor the depth of sedation, not to oversedate or understate the patient hopefully with this technology.

Now we have a unique way of displaying it. It provides the most complete view of the brain. A lot of the technologies out there can provide a number, as you can see with our SI but also provides the raw for EEGs on the front there and our DSA, our density spectral array at the bottom. You see with those black lines that you see vertically that are there, that immediately tells the clinician that, that patient has inversed suppression, meaning they've gone too deep.

And what it allows them to do is to pull back on the amount of anesthesia given, which lights them up a bit, yet securely, hopefully and safely has them exit. What this has been able to show is really great outcomes in Montreal recently published a paper showing length of stay reduction, not only in the OR, but also in the ICU when they sedate these patients because they don't take them too deep. So they wake up earlier. They feel better. We've recently received FDA clearance for now the pediatric population as well, which is really important for this platform.

Looking at our regional oximetry with O3. This is the ability to monitor not only the oxygenation of the brain but also now hemoglobin as well on the brain, it's delta hemoglobin. Really, if the brain is stable -- or I'm sorry, the other situation is stable in the patient, it's an indication of what's happening from a perfusion to the brain, which is really important for clinicians not only during cardiac surgeries, but now applied to many more surgeries. We've also now have absolute accuracy, not just in monitoring the brain, but we call it regional oximetry because now we can also monitor the gut or the kidneys or any tissue CAF on the patient as well. The combination of both of them on the Root platform with everything else we do, including the rainbow technology, makes the platform superior for our brain monitoring perspective by all means.

The combination of the 2 sensors, allowing them both to work on the patient forehead. It's the only platform that allows that, allowing them to not only monitor depth of disation, but also the oxygenation state. And the clearance now that we have across the patient population gives us the right to win in this space. Our NomoLine and Capnography gas monitoring. This is a \$1 billion addressable market with a growth rate of 10% annually or our long-term growth rate is at 20%, 2x over category.

What makes our technology differentiated here is -- we have our NomoLine, which is our moisture wicking capability, our patent and moisture working capability that allows these cannulas to be used for longer periods of time and including in high moisture areas as well. So it wicks away that moisture continuously, allowing them to use it for a longer period of time. We've also improved our patient comfort and completed the portfolio to launch next year. And now we also have our third-party compatible cannula.

So all the improvements we've done, not only work on the Masimo technology, but also can work on other technologies in hospital, allowing hospitals to standardize on our cannulas solutions. Hospital automation and wearables. This is a \$2.5 billion market opportunity, and we're growing at greater than 20% for our long-term growth rate. What we've done in wearables that you'll see out there as well as -- and in the discovery lab from the tour, truly is differentiated in all aspects, starting with the core of the technologies and the way they measure.

This is our radius VSM, what's worn on the patient here. It has the Masimo SET technology. It has our own noninvasive blood pressure measurement that has a 2-pump solution that measures very quietly and measures on the way up, allowing more comfort for patients when they wear it.

That patch on the test does a few things. It has a Masimo ECG, right, that does all the arrhythmia detections that a multiparameter monitor can. It also has continuous temperature and our positioning sensor Centroid built into it as well. Today, in hospitals, clinicians have to walk in on the general care floor every 4 to 6 hours. They drag in a monitor on wheels. They have to take a part NIB cuff, strap it around some of these arm, pull out thermometer, put in somebody's mouth or ear, put on a probe on their finger and wait to get those measurements, probably write them down on a piece of paper, then go back to a nurse station and document it down to the electronic medical record.

With a solution like this, it automates the entire thing. You set up the patient 1x. Now throughout time, it is continuously aggregating that data. The pump will go on a pariosity that the clinician set the SpO2 and all the Masimo SET oximetry data will be flowing as well as all the respiratory rate ECG data temperature data, and that will all flow into the electronic medical record continuously now. Truly automating clinician workflow. Next pack, we have Centroid, Centroid is a body positioning sensor that sits right there on the chest. It's a gyroid-solerometer based technology, but it's combined with a unique algorithm that we've built that tracks that patient position at every angle.

Clinicians can set up zones for where they need patients to be and not be how often they need to be turned and when. The smart thing about it, it monitors all of that, it triggers a notification to the right turn team or clinician to do that so they can adhere to their protocols, hopefully preventing any gut ulcers that can be produced from that. Now our suite of hospital automation solution. We say that, and I'm going to describe it to you today. We talk about aggregation of data. At Masimo, we don't just aggregate 1 hertz parameter data every second.

That's easy to take that electronic medical record. A few companies do that out there. But what we're doing, we're actually collecting from all devices that are in the room. So everything you have in the OR, in the ICU, on the general care floor, all devices that are there, you'll see this demo, the discovery lab, we pull data from all of them.

We don't just pull parameter data. We pull alarm data. We pull true waveform data. And we're able to do a lot with that. We're able to visualize that data for clinicians inside room and out, and we'll talk more about that. We're able to notify on clinician platforms, be it an iOS or Android device. With our Replica solution, we will run analytics on that data, and we will provide decision support. This is UniView and UniView: 60.

So all that information we're aggregating from what's happening in the room can be customized to be displayed in different ways depending on the patient procedure, depending on what the clinician likes to see or what the surgeon likes to see most of the time. but they're able to customize this to be patient-specific and be able to see all the things. So that's the ventilator on the top left, our anesthesia machine. That's the multiparameter monitor. That's the pump, all synchronized on a single display.

The UniView: 60 takes that data and is able to display it also outside the room. Not only when they walk up to see, hey, do I need to be gowned before walking in? Is this patient at fall risk.

But with a click of a button, they'll be able to take a peak about what's happening clinically with that patient, not only in a live format but also to review, it's called 60 because within 60 seconds, you can actually review patient data that's happened over time, helping tremendously with clinician handoff, which is a big problem in hospitals. You saw the launch of sepsis Index. This is extremely exciting. This is the decision support tool that we were discussing earlier. Joe talked about some of the statistics. So 1.7 million adults in the U.S. developed sepsis, 350 sepsis-related deaths in the U.S. and 1 in 3 patients who die in hospitals today have sepsis -- have had sepsis.

Now there are solutions out there that tell you when a patient has sepsis, but most of them tell you that they've had subsystem clinicians already know the patient has sepsis. So it's not very helpful. What we're doing with this index today is we're showing you the capability of having an earlier detection of sepsis and warning clinicians before it fully develops. So you can see there, it gives a percentage of the likelihood of sepsis for clinicians and notifies them when a triggered event can occur. Let's see what this looks like for clinicians. So you can see there, it will present a percentage of likelihood.

And as that starts to change for the patient condition, the likelihood of sepsis can change, and this is happening here a little bit accelerated to show you the impact. Hopefully, nobody is getting septic shock that fast. And then most importantly, clinician clicks they can see the reason why the algorithm is getting there from a decision support perspective and guide them with their own clinical guidelines in hospitals on what they need to do next, making it hopefully a very powerful tool for hospitals.

I'm also very pleased to introduce our vCAM product, which you'll be able to see a demo of today as well, which is our visual clinical activity monitoring. This is video powered AI. This watches clinicians as they walk in the room to make sure before they approach the patient that they've cleaned their hands, either by a soap dispense or alcohol dispenser or washing their hands in a sink.

It will actually monitor the activity, mark a clinician clean after they've determined that they've completed the activity appropriately. And once they start to approach the patient, it will allow them to go through. If they miss any of those steps, the device will alarm, reminding them to go adhere to the hand hygiene protocol.

So we gave you guys a glimpse of some of the wearable technologies we're introducing, the largest third-party integration platform out there today with our hospital automation solution and what we've done from a workflow enhancement in terms of improving care everything from vCAM to sepsis Index. The most exciting part of my talk is our telemonitoring and telehealth. This is something that we're really proud of at Masimo. Let's look at what the market opportunity is. It's a \$20 billion-plus market opportunity, and we'll grow we're growing at 20% plus from the Masimo standpoint. Let me tell you why.

Over the last few years, Masimo is the largest continuous monitoring cloud in the world. It spans the globe, everything but South America today. I said continuous monitoring cloud. That means it's not about managing chronic care conditions where patients with these different conditions are stepping up on a scale or taking a once-a-day reading with their blood pressure cuff or oximeter.

This allows for second by second data to be transmitted, monitored, clinicians can view it, notify based on it. We deployed this initially during COVID with our hospital to home. And now this is becoming the largest growing opportunity for us because hospitals today cannot manage the amount of patients they have. You'll hear clinicians come up and talk soon about their experience and impact the technology has had. But most importantly, think of what it can do for what we call hospital to home. Think of pre-op, post-op, length of staying hospitals, do patients need to stay in hospitals for that long? Or can they be safely monitored at home like Joe's case that he talked about. And then all the way to hospital at home, managing those cases of long-term or episodic care where you need to be able to do that.

This platform allows for all of that to happen on the cloud infrastructure that's already built, or on the app that is provided with the largest amount of care pathways for patients. So once they get this app, it is white labeled with the hospital's name. It has a welcoming message from the clinician and it walks them with all the activities they need to do day in and day out, including questionnaires, education, training material, but most importantly, monitoring all their vitals and even allowing for video visits to happen with their clinicians, all on the same platform.

So this also provides a dashboard to clinicians that they can watch all of these patients remotely and communicate with them. And we'll talk a lot more about the ecosystem with the services that we're providing here. It all starts with the technology. I want to pause at this first one, that moved a little bit too fast. This is 1991. This is somebody by the name of, and we're going to go back one more time, Joe Kiani, envisioning our first wrist-worn pulse oximeter back in 1991. And -- now we continue to innovate and try to develop. These are different engineering and clinical products that have been tested on our wearable device over time.

Landing with our Radius PPG that you guys all saw earlier and now on to W1. This is a breakthrough product. This has the Masimo health module on the back that I'll discuss a lot more, but it provides clinical great technology with continuous accurate monitoring of pulse oximetry, your SpO2, your pulse rate, your respiratory rate. It comes in combination with an application that we talked about earlier. It has an entire ecosystem of services where clinicians can help support, provide triage or review of data on or off-line and even allows for video visits to your clinicians through the platform.

Now this is extremely unique. Today, we all use smartwatches or most of us do, and we're used to the type of technology it provides from the health care standpoint, which is extremely limited, right? For us to take any of these measurements that we really need, we need to think about it, so, I think I'm feeling something or I don't feel well. I pause. I have to stop breathing, hold my hand very steady, try to get a measurement to see what's going on.

So it's you thinking that you need something in order to trigger. Imagine if that automatically why you are driving, while you're walking, continuous accurate measurement of all of these parameters. So SpO2, pulse rate, pulse rate variability, breadth variability, perfusion index ECG, we have a 1-lead ECG there that gives you the heart rate and also has arrhythmia detection capability, heart rate variability, continuous respiratory rate monitoring, expiration rate monitoring and activity steps and fall.

And now introducing hydration index. That's that HI parameter on the bottom there, allowing people to monitor their hydration on a daily basis. This is a measure of the amount of fluid in the body. You wake up in the morning, you go for a run, you sweat it all out. This index will start to drop and tell you need to rehydrate. Very powerful. We know how powerful it is for athletes.

We know how powerful as you can -- we talk to singers, we've talked to a lot of people that see tremendous value in index. And also on the health care side. You guys saw the press release and saw with chronic care management conditions, depending on their medication, different things, this becomes a very powerful tool also for clinicians to be able to monitor that for their patients remotely. Truly a game changer in its ability.

Now I talked about the W1 and that Masimo health module at the back and the importance of that accuracy and what does it really mean? Here's a comparative analysis for you. Now this is also available in a white paper on our website, so feel free to access that. And I think we have a few copies in the back. But I'm going to walk through this slowly just to give you the impact of this means. So in the first step here, we had 7 subjects.

We had 2 watches, the Masimo watch, always in continuous mode and then the Apple sleep monitoring mode, right? The Apple Watch in sleep monitoring mode. There was generated 49 events. That's 49 desaturations where they cross the threshold, meaning that there's a critical condition that the user should be notified on. The Masimo device caught 100% of them, 49 out of 49.

While the Apple Watch cut 3 out of 49, only 6.1%. Now let's look at it in the sleep position here.

Masimo continuously triggering. Now because the Apple Watch was in the sleep monitoring mode, here, we tried to force it to get a reading, meaning we say, "Give me a reading, you tough to click a button, just give me a reading at that time. That's all the Xs that you see up here in this graph. So even though we tried to force the Apple Watch to give readings, here, we had 8 subjects, 60 events of desaturations where Massimo caught all 60 of them at 100%, the Apple Watch cut 4 of them, 6.7%.

And -- now if you needed this for anything for a loved one or for yourself, you needed to monitor these conditions, you definitely want to know where you're at on a continuous basis on an accurate basis. Here's what it looks like. We plot these graphs all the time to show clinicians and everybody kind of the accuracy. So on the bottom is the reference, which is a blood draw that gets compared against the gold standard, which is a co-oximeter or an ABL machine in the lab. And on the left-hand side is the Masimo W1 and on the Apple Watch is on the right-hand side here. So you can see the accuracy in iRMS terms. That's the one on the left. Masimo is at 1.5%. While Apple Watch is at 4.4% iRMS when it worked. So when it was able to capture a measurement. Again, going back to the impact that our technology in terms of outcomes and why, it's because of its capability to continuously accurately monitor on these patients and people.

This is the ecosystem that we were talking about. So everything from periodic and on-demand reports generated, the team will be able to show you those. And if you purchase the W1, more recently, you will see an upgrade come through on the app side that will enable all of these features. If you have an Android that's available today and very soon on the iOS platform. You have family and clinical sharing capability.

This is the new app base that you'll see here with our Masimo Health app, advanced detection of AFib and I'm here standing here today, introducing a new partnership that we've just concluded last night with iRhythm, so iRhythm does the Zio Patch, if you guys know that product very well. Now they have an FDA-cleared optical or from the PPG continuous ability to detect AFib. So instead of you having to push and hold from the ECG to see whether you have Afib or not, they have an FDA-approved algorithm to be able to continuously do that from the PPG signal, so from the optical signal all time. We're going to be deploying this on the W1 and the Freedom platform. And once that is detected by the way, it will go back into the clinical services, providing additional clinical services back to these people and patients.

All right. We also have the ability for virtual doctor visits. We'll show you that demonstration outside as well, health coaches. Alert triage. This is the ability to have a monitoring center look over these patients and people and trigger nurses to make health calls based on what they see and then data review offline by clinicians as well, specifically for cardiac reasons. Now we talked about the cloud platform. We talked about our wireless sensors capability, and we also do this with some of the most advanced partners.

We've recently signed an agreement with the Cleveland Clinic, becoming our AI partner in analytics for cardiac. From the device and analytics side, we have Omron on our blood pressure and wait scale Bitium on the continuous and Ascensia on our SPOT Check blue commentry. And then our cloud and telecom providers are -- we work in partnership with Samsung. TODA is our embedded video processing capability that we have on our own cloud, able to manage a much more advanced video conference call, allowing about 50 people to come online and share images in real time and communicate. Taleo is also our communication partner for texting and messaging. This platform that we've built on the telemonitoring and telehealth space really does not have a competitor out there today and everything it can do. Starting with the largest monitoring cloud in the world, the broadest set of pathways and scalable



pathways on our platform, industry-leading clinical partners, best-in-class medical-grade technology and now, most importantly, the most advanced continuous bio-tracking wearable device in the W1.

Now here's what Masimo does best. We develop these core technologies and then we're able to deploy them on different platforms. So what you see today, you can only imagine what we can do more with. That's our health module that's in the back of the W1 today. Now that will go into different products. We talked about the B1, which is the ban on the right-hand side, the Freedom device and the W1 you see today and future products as well.

We took the technology that we've developed over 2 or 3 decades of our Masimo SET oximetry that we've learned so well on how to monitor on those neonates and newborn babies. And now you see that in the store product.

So you'll get to touch, feel outside today. Masimo's ATT technology right, which is that ability to send a signal into the ear and measure that response to be able to create that customized profile for that individual, now deployed into the denim product that you'll see out there. but that will expand further, not only in the in-ear products but also in the over-ear products in the future and the other brands as well.

And then that concept of having a hub, a medical hub at home to be able to monitor your loved ones when they're sick or if they have chronic care or for any type of data collection you need, now expanding it from that small hub that we've accessed in the thousands in homes today to now being on the heels platform and allowing that to go from 23,000 devices as of this morning, going up to 4 million by end of next year and beyond.

But truly attaching that. So this is very important. This is taking a consumer cloud and giving it access to the medical cloud, right? So what you get for in the package, you get a lot more for it. And we'll be able to retarget these customers, tell them what they can have here from a medical-grade technology in their home. A few regulatory and reimbursement updates.

In 2022, I'm sure you guys have heard the news, but the FDA has created a pathway for OTC now, right? They bifurcated it into 2, depending if it's a self-fitting or not, self-fitting, meaning if it needs 510(k) clearance or not, but now they have an off-the-shelf OTC indication for hearing aids, which is extremely exciting. We look forward to further to continue as we also develop products heading towards this area. Telehealth and telemonitoring, there's been a lot of changes. During COVID, the FDA, CMS, everybody rushed when they saw technologies, when they met clinicians, you'll hear Dr. Tripodi come up a little bit later.

But when they saw the need for the ability to accurately monitor patients at home, they rush to create these opportunities and to allow technology to really show its capability. Now CMS has pulled back on a few of their kind of what they've loosened up during COVID. But from the FDA's perspective and from CMS's perspective, they see this nobody is going backwards.

They're going to continue to allow companies and encourage companies to push this forward as they've seen the positive impact these technologies have had during COVID. I'll touch on a little bit what we have in the pipeline with the FDA today.

So everything you see up here is with the FDA, starting with Masimo SafetyNet Alert. This is our ability to monitor opioid-induced respiratory depression at home. We're seeking OTC indication for this, and we would love this product to be deployed where it allows these people at home once they do have an episode of opioid-induced respiratory depression to either try to wake them up. Notify a loved one, or their emergency contacts, they try to come provide an rcn and if not, auto trigger a 911 call on a health call to save their lives. ORI Oxygen Reserve Index, this is the ability to monitor oxygenation beyond what SpO2 can do. So when they over oxygenate patient or they provide supplemental oxygen to patients, it goes above 100%.

This index is able to monitor that. Think of situations in the OR, where they're trying to do a difficult integration. They want to make sure that they have sufficient oxygen so they don't DSAT the patients a safety mechanism or in the ICU now in Europe, it's used heavily in the ICU, where they tried not to over oxygenate patients because that is also shown to be extremely dangerous. Eve, which is an automated way of doing that congenital heart defect screening that we talked about. Today, it is a little bit of a cumbersome process where they're wrapping sensors and they're trying to do calculations and they had this automates that entire process for nurses and clinicians.

A newer generation of our soft flow with enhanced features of 60-liter at home and a smaller adapter as well. Rad-G, our handheld platform now with a temperature screening tool in the back. Masimo SET for over-the-counter, Masimo W1, Radius VSM that we talked about, that Vital Signs monitor and now STORK. All of these products are with the FDA and we hope to get clearance in a timely manner. I'll remind you of the different health care segments we talked about and the growth rates that we've talked about from Masimo. Pulse oximetry now for us is a \$3 billion addressable market after adding the general care floor.

The segment is growing at 3% to 4% annually. We're at Masimo, we plan to grow 2x that at 6% to 8%. We are the market leader in pulse oximetry today. On the rainbow pulse oximetry side, it's a \$2 billion market opportunity. No competitor here, our growth -- long-term growth rate is at 10%, and we are the market leader here. SedLine Euro 3, our brain monitoring combination is a \$300 million addressable market. We are second here from a market standpoint, the market is growing at 5% to 7% and we are growing at 3x that at 20%.

NomoLine or Capnography is a \$1 billion addressable market, growing at 10% annually, where our long-term growth rate is at 20% and we are second here from that perspective. Our Masimo hospital automation platform is a \$2.5 billion market opportunity. No real competitor here that we can look at just because of how our solution is put tether across the continuum, and we have over a 20% long-term growth rate. Last but not least, our telehealth and telemonitoring capability, where a \$20-plus billion market opportunity with our growth rate at over 20%. Now when you look at how this segments in terms of revenue, our pulse oximetry makes up 79% of our revenue. Rainbow is now at 10% of our revenue and 11% comes from these small but very fast-growing opportunities that we have in front of us. Thank you.

Okay. I spoke about telehealth and telemonitoring. And we have a few clinicians that are going to come up here that are going to talk to you about their experiences and what they've done at their different facilities. But I'd like to introduce Dr. Bill Wilson. Dr. Bill Wilson, our Chief Medical Officer at Masimo. But his experience in this space has truly been -- his experience is tremendous here. He spent 10 years at UCI leading the telehealth and telemonitoring program there. He was also the leader for all the UC schools when it came to the EICU programs there. So his experience here is vast and he's partnered with Dan Cantillon and Dr. Peter Pronovost. So please welcome Dr. Bill on the stage.

#### **Unknown Attendee**

Great. Thank you very much, Bilal, and thank you, everyone. It's my pleasure to moderate this section on telehealth and telemonitoring. And just a little bit more about myself. Thank you. We'll use those in a moment. So just a little bit more about myself. Adult and pediatric cardiac anesthesiologists, 2 decades that you see San Diego doing that work and running intensive care units.

We recruited up to use Irvine about 10 years ago to run all the intensive care units. And then, yes, as Bob mentioned, the telehealth champion for the University of California, Irvine and [indiscernible], some of that work was very important for us during the COVID pandemic. One of the aspects that is very important with telehealth and telemonitoring is that you have the best-in-class and you're going to hear from myself and my colleagues. Let me introduce my colleagues, first, and then I'm going to give you a little bit of an update on the current state of the art of where we are with health care in general and then telehealth. In order of their appearance, I'll be introducing Dr. Dan Cantillon from the Cleveland Clinic and Peter Pronovost from University Hospital Health Systems. Dr. Cantillon is the Associate Section Head of electrophysiology at Cleveland Clinic and he also is the Medical Director of the ECMU, the Cleveland Clinics version of the central monitoring unit, monitoring 10 hospitals, you'll hear more about that. And Dr. Cantillon has a number of really impressive credentials under him. He is the first position at the Cleveland Clinic to insert a totally leadless-implantable pacemaker but was also the first in the entire United States to put in a leadless pacemaker in conjunction with an AICD. So those are really important distinctions. At the same time, he runs the central monitoring unit.

Dr. Cantillon has published more than scientific papers and really important peer-reviewed journals like JAMA, the New England Journal, the Journal of Clinical Cardiology. And he was noted as the Health Information Technology Innovator of the Year for his work in the ECMU. Now after we hear from Dr. Cantillon, we'll hear from Dr. Peter Pronovost. Peter Pronovost is the Chief Quality and Clinical Transformation Officer at the University Hospital Health System, and he is a world-renowned leader in patient safety and quality.

His outstanding achievements are really too numerous to account, but I would to provide a little summary of some of them.

The first is that he created the CLABSI prevention checklist. Now CLABSI stands for central line associated bloodstream infection. And prior to others talking about checklist, Dr. Pronovost showed that if you if you do 5 things with fidelity, you can eliminate central line associated bloodstream infections.

He did that at Hopkins, where he was at the time when he invented it. And he then brought it up to all the hospitals in Michigan on a special project and then to hospitals in Texas, and pretty soon around the world, we were all using this. And this was markedly decreased.

So I can tell you in my work in the ICU at UC Irvine in our [indiscernible] unit, using his checklist, we were able to go 3 years without a centralized associated blood stream infection. He's had over 1,000 peer-reviewed journal articles. He is an adviser to the World Health Organization's World Alliance on Patient Safety.

He regularly addresses the U.S. Congress on matters of patient safety and quality. He's a member of the President's Council of Advisors on Science and Technology, PCAST. And in this role, he helped decrease the cost for Medicaid by 30% while improving outcomes. He's now dedicated to expanding care delivery from hospital into the home.

And he actually helped lead our transition here by partnering with Masimo with the Masimo SafetyNet. And you'll hear more of the story from him when he comes up to help with this journey. Now before inviting the first speaker to the stage, I would like to just set the story about where we really are in health care currently and then where we will be going with [indiscernible].

So currently, our health care, as you all know is very expensive. It's fragmented. So that variability is problematic, wasteful and it's not as safe as it needs to be, and we have an aging population. The United States spends about 20% of GDP, upwards now of \$4.6 trillion, on health care alone.

Of that, which is more than any other industrialized country, any country in the world, we don't get as much as we should for that money. If you look at our infant mortality rates, they are higher than they should be. In fact, they're nearly 3x higher than what you -- what they experience in Japan and some of the Scandinavian countries.

And they pay half as much on a per capita basis for health care than we do. If you look at our health care spend, over -- and you go year by year, it's about the same as the industrialized countries until you get to about 55 or 60 years of age, and then there's a divergence where we spend way more.

And that elevation of money that we pay, that increased burden in the elderly, is partly related to their disproportionate increase in chronic disease like congestive heart failure, but also due to waste that is often care that is delivered in a hospital that could be delivered in the home.

There's the 2012 JAMA article by Don Berwick, that demonstrated that 50% of the health care spend was on waste at that time. And it was about \$2.4 trillion, and now we're at \$4.6 trillion. And there's now a new paper by one of our speakers and I think maybe Dr. Pronovost may allude to this when he speaks that he now looked and currently we still have 50% at least of health care waste and a lot of that is due to care provided in the hospital that could be provided in the home.

The financial stresses and reduced workforce that was brought upon us with the COVID pandemic has exacerbated the problem and the solution to all these problems or this technology. But not just any technology, it has to be best-in-class sensing and monitoring to improve safety. And Masimo is the one company that has demonstrated with Masimo SET, actual significant tangible benefits, improvement in outcomes here.

You've heard already, and I'll enumerate again, a decrease in the retinopathy prematurity [indiscernible] and increased ability to diagnose critical congenital heart disease and a decrease in those patients that are unrecognized to have cardiac arrest in hospitals. If you're not at hospital with Masimo Patient SafetyNet with continuous monitoring on the care ward, which is still a problem for a number of hospitals -- we have the solution. If you're in a hospital on the floor, the chance that you could be found dead in bed is significant. It's a problem, and it happens in hospitals all around the country. We need to stop it. We have a solution.

And so it's remote patient monitoring in the hospital that we need to expand and remote patient monitoring in the home but it cannot be just any remote patient monitoring. It has to have the sensing technology that is continuous and hospital grade, and that's what Masimo brings to the market. Now what -- to help discuss this problem in greater detail, my colleagues will talk about some of these problems and solutions in greater detail.

And first up will be Dr. Dan Cantillon. Now what I would like to do without any further ado is invite him up to the stage -- and remember Dr. Cantillon is the Director of the eCMU amongst many [indiscernible]. Please join me in welcoming Dr. Cantillon.

### **Unknown Attendee**

Good morning. Thanks very much, Bill. And it really is a privilege for me to be here with all of you and to kick off this session that we're going to be getting into. As Bill mentioned, I am a cardiologist at the Cleveland Clinic, and I am the Medical Director of our inpatient RPM Program and I'm going to be speaking today about getting beyond the brick and mortar of the hospital. And what we are doing at the Cleveland Clinic to get from the hospital into the home so that we can render the most effective care at a distance for our patients to improve their outcomes, but also to promote health within the community and well-being.

And so I'll be getting into that as we go along. And I know this is a fairly sophisticated audience, and I can't imagine that anybody has been living under a rock for the last 6 months. But for those, just to be reminded of the extreme duress that the health care system is under right now.



You've heard a lot about the tripledemic, which is this overlapping surge in cases related to influenza, RSV and COVID. And certainly, that has placed a strain on the resources of our hospitals and our health care systems in terms of debt allocation and resources and things that matter.

But I'm going to be describing a much bigger problem in the world of chronic disease and chronic disease management, particularly when you consider the fact that the Census Bureau indicates that by 2030, more than 1/5 of the U.S. population is going to be over the age of 65, that's Medicare age.

And we are facing critical shortages for physicians and nurses. A McKinsey study has indicated that we are going to be down somewhere between 200,000 and 450,000 nurses by 2025. And so we have staffing shortages as a major problem, length of stay, which is a little bit counterintuitive for non-health care people because we think, okay, well, if I'm in the hospital, the longer I'm in the hospital, the better the doctors and nurses can take care of me and the better off I'm going to be, where it actually goes the other way.

And the longer that we're in the hospital, the more apt we are to see hospital-related complications that can reduce the quality of care delivered to our patients, lower the outcomes across many different disease states and also drive up the cost of care. And thirdly, readmissions, which is a huge problem in my area of cardiology, where up to 1/4 of patients that are admitted with congestive heart failure and treated can be readmitted within the first 30 days.

That's bad for the patients, that's bad for the hospital systems, and it's bad for the payers. So it's a lose, lose, lose. And I want to further expand upon the chronic disease issues that we are facing in the United States. So pre-pandemic, the top 3 causes of death in the United States were fairly consistent, heart disease, #1; cancer, #2; accidents and unintentional injuries, #3.

But in 2020, as we know, the world turned upside down, and we were confronted with the COVID pandemic. And overnight, out of nowhere, this was vaulted to the third leading cause of death in the United States with over 350,000 lives lost in the calendar year of 2020 due to this devastating disease. But if you look at the data that I have up here on the screen, you can see that there was an even bigger problem than just that.

If you look at cardiovascular disease, which was still the leading cause of death by quite a big margin, between 2019 and 2020, the per capita mortality actually increased during the pandemic. If you look at the blue shaded per capital mortality for 2019 and the gray for 2020, it actually increased.

And why is that? Bill alluded to, we've got all these great new innovations. We've got these nano wireless pacemakers and all these really cool things that we're doing in cardiovascular disease. So why did the mortality go up? Well, as some of you know, hospital systems, including ours, were forced to restrict elective services, many of which provides care for conditions that feed into cardiovascular disease, such as hypertension and diabetes.

But as a practicing physician, I can tell you that my patients were scared out of their minds to come into the hospital during a time of the global pandemic where they were worried not about -- not only about their own health and well-being but the possibility of transmitting the virus to a family member, a loved one, and putting them in harm's way.

And so there was a lot of deferred care. And what it forced us to do at that time was to begin to imagine and begin to better refine our technology-enabled solutions to render care at a distance, more effectively in the home and within the community. Now Bilal spoke at length about these technology-enabled solutions. And I couldn't have possibly covered the sensors and all of the magnificent engineering that goes into these products better than what Bilal has already said.

But I want to say as somebody who's had the opportunity to collaborate with Masimo on the ECG platform, the VSM, which is shown here on your right of the screen, this is really phenomenal engineering. When I first began to work with Masimo in 2019, I really began to understand Joe Kiani's vision of building not just an ECG monitor but building top-in-class cardiovascular solutions.

And so it's been extraordinary to work with Masimo on this product. And now to see this in the hands of my friends and my colleagues, my physician and nursing colleagues at the Cleveland Clinic as part of our IRB-approved studies, they're seeing all of this amazing technology for the first time, and that's really rewarding for me.

And it's so rewarding, even more rewarding, to see this on my patients, and to imagine what kind of outcomes, changes we're going to see with these types of solutions. And so as we consider these types of platforms, we have to think not just about the devices and the sensors, but we have to think about how we are going to use these for our solutions.

And I want you to think about 3 ways. The first has been mentioned already, which is clinical decision support, giving our clinicians insight into what's happening with patients, which opens a lot of doors for hospital automation. The second is situational awareness, and we'll dive a little bit deeper on that one.

Telling us who are the sickest patients and who requires our attention first, second and third and so on and so forth. And thirdly, precision analytics. And what does that term even really mean?

I would put forward to all of you that it's getting away from this idea, this doctrine of a heart rate or a vital sign value going out of range is just alarming, that in a future state, we are going to provide clinicians like myself insight into what's happening with our patients so that we can get information and we can very quickly deduce what's going on with the patient and we can get towards those solutions and corral the resources that are necessary to get them better in a more efficient way.

And so I want to dig in a little bit and talk about the unmet needs and how we can identify those gaps and use the technology to better enable the solutions. And so take something very simple, monitoring patients in the hospital. We detect cardiac arrhythmias. We notify nursing personnel and then we corral the response that is necessary to care for the clinically deteriorating patient. So what could possibly go wrong? Well, it turns out that for patients admitted to the hospital with chest pains, nominal telemetry equipment generates 5 alarms per patient per hour, more than which 99% are inactionable. Does that sound familiar?

Joe Kiani spoke this morning about the work that he has done over the last 3 decades in pulse oximetry to get away from those false alarms and to identify the true signal of those patients that require our attention. Well, here it is. This is what we're facing in the world of cardiac monitoring right now.

So similarly, studies have shown that up to 44% of cardiac arrests are not detected appropriately. And that is the true signal of the patient that requires our attention. And what does it mean? According to statistics from the American Heart Association, a little bit less than 1/4 of patients survive a cardiac arrest in the hospital in a non-ICU environment.

So that's 1 in 4. And to contextualize that number, if anyone was to have a cardiac arrest on the sidewalk, your survival rate is about 10%. So we don't consider a survival rate of 25% in the hospital acceptable. And so what have we done at the Cleveland Clinic as part of the solution?

So let me introduce what has been discussed, which is our bunker, our command center, our central monitoring unit, that's my unit. It's about 20 minutes outside of downtown Cleveland, located in the suburbs, away from the noise and the distractions of all the normal hospital activities.

And we provide continuous monitoring for the main campus plus 10 additional facilities that I show here, including our Florida facility [indiscernible] we are growing to expand to add more of our Florida hospitals. And as you know, we are an international organization with facilities in Abu Dhabi and London.

We have 24/7 coverage for over 2,000 monitored beds of non-ICU patients, both adults and children, and we provide prompt bedside nursing notification -- and we uniquely have the ability to be integrated with our rapid-response team so we can communicate directly with our rapid-response teams, and we can selectively deploy those resources to the bedside. And I'm going to show you what those outcomes look like when we do that.

So this was our landmark paper, which we published back in 2016, and we've had subsequent publications since that time. But in this study, we showed that this model works. This model improves the outcomes of our patients. We increased the notification of lethal arrhythmias.

We numerically decreased the number of cardiac arrests and we were able to, on a discretionary basis, deploy the rapid-response teams directly to the bedside. And when we did that, we saw that we had a 93% resuscitation rate, return of spontaneous circulation, which you can compare with that historical rate of 25% that I mentioned earlier. That is a game changer.

And so our solution has had fewer misses. It has used a team approach to monitoring patients. We have increased the efficiency. We have doubled the capacity of the number of patients that a human technician can monitor and, most importantly, we have improved the quality of care for our patients. And as I mentioned, we're getting beyond the brick-and-mortar. It doesn't stop with what we're doing inside the hospital.

We need to get outside the hospital. And you've heard a lot about the watch technologies. We showed in this study that the wearable ECG watch can be used effectively to detect atrial fibrillation similar to a board-certified human cardiologists like me. But again, that's not just the end of the story. We're not just about detecting.

What we need to do is we need to build these technology solutions, and we need to weave them into the fabric of our health care ecosystem so that we can translate that into actual improvement in outcomes for patients because that's really what matters. The patient is at the center of the wheel.

And so this is what we did with our AFib future clinic. And what we did is we took a pool of patients that underwent a procedural treatment for their atrial fibrillation, something called an ablation, which is what I and my colleagues perform. And we monitored them with smartphone-based technologies.

And what we're able to do was we really integrated that into our electronic medical record system, and we were able to continually track who was in normal rhythm, which was the overwhelming majority of these patients, but we were able to identify the true signal of those patients that were experiencing arrhythmia recurrences that required our attention.

And we were able to corral the resources that they needed to keep them at home, to keep them out of the hospital, to prevent them from needing to be readmitted and to improve the quality of care that they received. And so for us, this is the benchmark of how we are going to build into that future state with the collaborations that we have with Masimo.

And so I'd like to conclude by talking about precision analytics and insight-oriented alarms as opposed to just flashing when things fall outside of a nominal range. And I know that I'm the cardiologist in the room, but you're going to have to take my word for it. That's a normal EKG that you're looking at.

And with the power of artificial intelligence, not talking about future state, just things that we can do today with AI, we can look at that EKG and we can tell the patient's age, we can tell if that's a male or a female patient, we can find camouflaged evidence hidden in that signal that, that patient may be deteriorating from a heart failure perspective or may be vulnerable to certain metabolic arrangements.

We can even make predictions about the concentration of certain drugs in the human body, all from that ECG tracing. So there's a lot of power in the analytics. And that's why this is going to be an important focus for the future. And so I just want to say that it's been an honor for me to collaborate with Masimo. And as Bilal mentioned, we have some exciting work plan for the future in the world of cardiac AI, and I'll conclude my remarks there and turn it over to my colleague, Dr. Pronovost.

#### **Unknown Attendee**

Thanks for having me here. And Joe, it's great to see you again. What I want to do for a few minutes is just frame a little bit more of the national health care context and then share with you from my own experience, why I think Masimo's culture and capabilities are designed to solve some of these problems that we face.

Now you've heard others highlight that the U.S. health system harms too often, it costs too much and it learns and improves too slowly. The harm is too often, medical errors or preventable death are easily the third leading cause of death. And if you add failure to prevent those chronic diseases that you've just seen, it's probably up to #1 and #2.

We spend \$4.6 trillion but at least 40%, 50% is wasted. And wasted on what we would call defects in value, that things that we do that just don't get people well. And we're struggling right now. Our health care costs have gone up 20%, about 18% for labor, 22% or supplies. And our revenues are up 2%. What does that mean? That means 60% of health systems have negative margins in this country. And just in the last quarter, I think it's 80 hospitals went bankrupt, and those numbers are exploding. And the bond ratings are all essentially uniformly downgrading health systems. And they provide a vital role.

So what does that mean? That means people like me and my job, I'm a critical care doc but I run our health system, have essentially 2 major, major focuses. One is to get our hospital cost structure down so we could be profitable on Medicare level payments because that's the only payer that is going down. We all lose money on Medicare.

And then second is reduce our per member per year spend so that we could win in value because whoever provides that high value of quality and cost is going to win. So in that context, I'd like to say, well, why haven't we innovated to get good value in health care? Why have we had brilliant innovation in drugs and devices and pathetic innovation in health delivery?

And why do I say that? Because we have negative labor productivity. An average 1,000-bed hospital [indiscernible] 2,000 people, it's now run with 11,000. And probably the best example of, I would say, failed innovation is the ridiculous amount of money we spent for the EMR and the only national signal of what got better is billing and burnout.

I mean, there's literally no signal that safety or cost is getting any better. So why is that? Well, I want to share with you a story of how Masimo innovates that I think will say why [indiscernible] because the innovation in health delivery failed because it's not focused on a clear defect in value. It's often a shiny object, contrast to drug and devices, which has been brilliant.

They often have horrible design and poor usability. And if it doesn't fit into a clinician's workflow, it won't work. There's almost no independent evaluation if it works or not, unlike drugs and devices. So some widget gets invented and say, no, use me, I saved a ton of money, but okay, what's the control group? It's never published. And there weren't great incentives for health systems.

So -- story, when March 2019, we were overrun in Northeast Ohio. We were talking about a building, these 1918 tenants that have no technology. And I called Joe, my friend, and said, Joe, did you ever build that pulse ox that could be used at home to integrate with the phone? Because most people have a bed, and we have infinite capacity to expand hospitals. So if we can do that -- Joe said, that we haven't. We're -- it's under review for a drug overdose, but let's see if we can get a cost set-up with the FDA to get emergency approval.

Two days later, we're on a call, just the case is so indisputable, we're going to kill people because what was happening was people were monitoring at home with nonmedical-grade devices, trusting that they were accurate. But -- and many people were dying from unrecognized hypoxia. In other words, they weren't symptomatic, they just dropped dead, that those devices weren't good to approve.

We got approval on the call. Next day, we started a literally every day, sometimes twice-a-day call, and this is how you innovate with the engineers from Masimo, Joe and Bilal were reading it with myself, and our clinical teams and we designed, okay, how do we use your technology to fit our workflow so we could hook people up in the [indiscernible] or from physicians' offices or from discharge, and get all the kinks out of how do you set it up, what's the display, what's the algorithms?

And literally, our clinicians would say, this is a gap. Joe would say, engineering team fix it. Next day, we come up, I mean, it's that kind of iteration so that 5 days later, we launched our first patient. 30 days later, we hosted a webinar with the WHO with 80 countries and 8,000 health systems. And now we monitor over -- I think it's over 6,000 patients on there.

And what have we achieved? We published this in JAMA, 77% fewer deaths, 87% fewer hospitalizations and each of these cost \$11,500 less than being admitted. And that experience taught us a couple of key lessons. The first lesson is how to innovate in health delivery because it doesn't happen with technology alone. It really requires a trusted partnership with a provider that you do agile design and iterate because it never comes out of the box fixing your workflow.

And unless you have that culture of humility and collaboration, it won't work, which is why we have the EMRs the way they are because they were too rigid. The second, and perhaps more profound though, is what COVID taught was the possibility of creating a web of well-being.

What I mean is prior to COVID, monitoring was dictated by geography. If you're in the ICU, you got certain monitoring. If you're on the floor, you got monitoring. If you're home, you generally got nonmedical-grade monitoring. What COVID did was saying, we could monitor based on risks. We'll monitor you anywhere.

You can get ICU-level monitoring at home if that's what your risks need because then we can couple those with therapies and treatments to allow us to care for many, many more people at home. And that web of wellbeing has been a profound transformation that allowed us to go from care that was reactive and transactional to care that is proactive and relational.

So where are we going with this? Well, what's happening now? Well, we believe that about 50% of medical admissions could be cared for at home. Health systems lose money on medical admissions for the most part. A lot of money, right? So they can get better care if they're at home, but it's not just doing it wantonly, it's they're getting better care, it's safer because we've created this web that allows us to link risk prediction and monitoring with therapies and then real-time monitoring and insights to learn and to prove so that we can now deploy blood at home, we could do televisits. We have this web to essentially create a matching market, where it says, what does patient need for their risks, we can match that to services and therapies that they need and monitor how they do.

Another example, the W1 is a transformative piece because it allows you to, with the Masimo platform, create that ecosystem. I mentioned 50% of medical patients, but as you probably know, 30% of Medicare patients get readmitted. And we think they're mostly medicine, but even the surgical readmissions are the same rate. Any guess what the #1 reason for surgical readmissions are? Dehydration. Really stupid, but you get a call that I'm dizzy, I have to come in.

This watch could pretty easily be able to eliminate that and begin to create this transformation. So how do we make this real or what does it take? Well, as Bilal shared with you, luckily we had some [indiscernible] models that were put in place for COVID, most of which are still here that had allowed us to build -- because in the past, you used to have to monitor patients for 18 or 20 days because our mindset was it's only for chronic disease.

CMS, to their credit [indiscernible] it and made it for 2 days. So we have some payment mechanisms. They pay a hospital rate DRG for the hospital at home. So we actually make more money on those. So there's a huge -- the payment models, and they're not going away because it's -- they've generally proved to be beneficial.

You need a technology and a platform, and I think Masimo has that in spades because what we've seen before is we had all these little one-off teams building on, I want to monitor heart failure and I have my own little gizmo or I want to monitor readmissions, I have my gizmo. But as an executive, it's not sustainable.

I can't stand up teams doing that. It's risky because it didn't have the compliance or the over -- insight for it. But what our clinicians used to say, but Peter, if I'm monitoring heart failure, I don't want continuous monitoring because there's too many false positives and it's just not feasible for me. I'm more bothered by it.

And what we are doing is we are making a false trade-off because we assume that technology wasn't valuable to give patients substandard care. And what we saw in our COVID work was the exact same work Bilal showed you with the Apple Watch is that if you do spot checks, you will understandably miss people.

So when we looked at our home continuous monitoring and said, what would have happened if we just did twice-a-day spot check? We would have had people dead because we would have missed those episodes of hypoxemia. But it was a false choice. The W1 says we don't need to make that trade-off. We have the technology to give you continuous monitoring when you need it without having to compromise on those false positives and importantly, fit these into a clinical workflow.

I want to conclude -- because technology is important. But the secret to high-quality care and my friend, Joe, whom I've worked with for 20 years and respect immensely -- often I talk about the secret of great high-quality care is love. And love is an energy that uplifts and connects, and it's experienced in micro moments, right?

What you've heard Joe and Bilal and the team describe is that energy, that uplifting [indiscernible] is this technology platform. But that alone won't do it. It needs to be partnered with health systems who could make sure that we make protocols, so you're not just predicting risks, you're prescribing actions because AI alone without action hasn't really been -- isn't going to do much.

But health systems, given the financial [indiscernible] are going to struggle to set up systems like you heard the Cleveland Clinic has because they say, does this sit in emergency medicine, does it sit in hospitals? And I think the vision of Masimo growing clinical services to outsource or partner with health systems that they're part of this web and we need to offset resources is really the future.

And I want to end with a case example of this power of love. We have a project funded by Robert Wood Johnson Foundation to look at the really expensive patients. The 1% in this case. We have some for a commercial insurer. In this case, it's a Medicaid insurer. They were spending somewhere around \$3,000 per member per month in this cohort of patients.

And they had medical and social complexity and often behavioral health complexity. They don't trust us and they have really low self-efficacy. So they're hard to engage with [indiscernible]. We did a model where we put intensive case management into these populations. So the case manager may have 30 patients, and they would meet them in the hospital if they got readmitted or at their home to understand what they do.

And so we met this patient, Jim, who was in our emergency department literally every week for diuresis, every week. And he would show up and didn't trust us. He saw his life is like destined to be overweight and have substance abuse. And that case manager got to know Jim and went with him to his clinic and say, well, hey, we have a clinic that you can go to that you don't need to go to the ED, and so the case manager is sitting there talking to Jim, and his girlfriend brings in a McDonald's Big Mac and oversized fries and saying, okay, that when they get sick, she is self-caring for both of them by giving them a treat at McDonald's. And it was super well intentioned, but disastrous for Jim because it led to him [indiscernible].

And so we had some discussion with them about well care and what he should do and got them connected with primary care that focuses on wellness. And Jim now hasn't been admitted for 8 months. In that pilot, we took the average per member per month spend down by \$1,200. But I can't scale it without this Masimo platform because I -- in our health system, we have -- we care for about 1.5 million people, about 650,000 are in our ACO where we have some risk for.

And I probably have 50,000 people like Jim who need some kind of solution. And I can't hire a ton of FTEs to do this manually. So with those organizations like Masimo that are humble and curious and compassionate enough to put their culture and their capabilities, partnering with health systems to drive value that it's almost existential for us.

If we don't get our costs down in health care and improve our value, there's going to be many more hospitals going bankrupt and it's not affordable for the country. And I think it's these private sector capabilities, like you heard Joe and Bilal talk about that are the solution. So thank you. And with that, I think we're ready to take your questions.



# Question and Answer

## Unknown Attendee

Excellent. Peter, thank you very much. So what we'll do is we'll extend the question-and-answer period to 10:30, that would give you a 30-minute addition to the time that was previously allotted.

There's a lot to discover and explore outside so we want to make sure that you get the opportunity for that. So what we'll do is -- so what we'll do is, please start hammering away what questions do you have? Go ahead.

## Unknown Analyst

I think just a general question for both of you, you're early adopters of the technology and remote care and the your peers.

**Joseph E. Kiani**  
*Founder, CEO & Chairman*

So both are early adopters, both of our clinician experts, what's keeping some of our peers from adopting this. Do you want to start with that?

**Micah Young**  
*Executive VP of Finance & CFO*

Yes, sure. I think we could talk about some of the barriers on implementation on the regulatory side, on the reimbursement side. I think Peter touched on some of those things. But there's also a physician and nursing culture that exists. And I think reimagining that care takes some time to really demonstrate the value for our colleagues. But then once people see that and once people are alleviated from some of the burdens that are placed from them in their everyday jobs, they're able to move with the change and embrace this technology and even help us innovate and get better by providing feedback on what we need to do differently. Because as Peter mentioned in his remarks, we never get it right on the first time.

## Unknown Executive

Great comments, I would just add to that. Like many organizations, health care is really siloed, right? And so I mentioned and these words are really carefully chosen health care is largely reactive and transactional. So someone shows up in the ED, I do my job to get them. And then when they leave, I don't think -- I don't care about anything else. My job is just -- or I'm a hospitalist, I'm a cardiologist.

To solve these problems, we need to be proactive and relational. And it requires leadership to say, yes, I get you sitting there, but we're literally creating this web that's linking across the continuum of care, and we need to break those silos and pull people together. And in my organization, I mean, it was a very intentional strategic transformation effort where the model that we used was getting everyone to believe that we can get to zero defects and value creating structures where people belong to a peer learning community.

So we just -- no reporting mechanisms, but just brought people together across the continuum to say what are we doing to drive value and then building good management systems because there's compelling evidence that good management matters and good management is almost entirely absent in health care.

**Micah Young**  
*Executive VP of Finance & CFO*

Great. And I'll just add to that before we take the next question. also that there's a lack of vision, and there's also information that people don't know that they don't know. So when this first happened, Peter knew enough to call his friend and he knew that there was a device that might be ready, and they iterated back and forth. About a month after it was adopted by Peter, I got to call from Joe and his team from [indiscernible] that, hey, we've got this up and running now with you benefit?

At that time, we had built a military field hospital in our parking lot, and Masimo helped us put devices out there to set technology. We also deployed 135 conference rooms and physicians' offices that now became clinical areas that we deployed with devices as well.

But and -- so we heard that this Masimo safety was there. And so we then deployed it in our emergency department to avoid admitting patients that had COVID, but they weren't sick enough, but we weren't sure, so we could monitor them at home. And then we can



earlier discharge patients from the work. So it's a vision and knowing that information was super helpful. There's a question here, please?

**Frederick Allen Wise**

*Stifel, Nicolaus & Company, Incorporated, Research Division*

Rick Wise, Stifel. You're both speaking very eloquently, movingly about the challenge and the -- your response to -- so the challenges for taking care of patients. I won't speak for everybody else, be it for myself. I have the more mundane task of imagining how this translates into dollars and cents and adoption rates in sort of more concrete terms.

And I'm going to ask this in the stupidest way I know how -- do I imagine now that every bed in Cleveland Clinic and every bed at University Health is as patient safety net. Is every patient that comes into the hospital or is discharged or is it coming to the emergency room now going to leave with a W1 watch because of the kind of capabilities. How do I think -- how do I translate what the open comments you're making into...

**Unknown Executive**

Yes. So I'll give you a [ guidance ] because I live it every day. And let me be very, very concrete from I own health system. I mentioned we have to get our cost structure down to be profile Medicare patients, right? Our current cost structure is 17,000 -- this is public, 17,500 Medicare reimburses us about 15,000. So I need \$2,200 out per discharge, very, very concrete. Where does that waste come from? Labor productivity. Like nurses spent like 15% of the time documenting vital signs.

So if I could automate every bed, automate that documentation saves them time, let alone with other people who walk around with machines taking vital signs all to that complications. About 30% of patients suffer a complication. Any single complication doubles your cost of care or triple some of it. So 15,000 to 30,000 to 45,000 and we do it for -- clinically, but financially, those costs are really expensive.

And then finally, getting length of stay down. You heard all the great work that Dan shared with you, on average, every day in the hospital on the floor bed, it's much more in the ICU is about \$6,000 we use at our cost, right, not what they see. ICU is probably more in the \$4,000 or \$5,000. So everything I can do to manage that flow or throughput or keep people moving.

And then a final piece, and this is less the logistics, but it's where their work fits in. If you look at like logistics, think of us as FedEx or UPS a box moving along and what happens if it falls off the conveyor belt. In a hospitalized patient, we do work on them about two hours a day, maybe four hours. Everything else is waiting, right? And so the more we could get rid of that wait time and get people moving. So this kind of technology, which that's why I mentioned my opening point if we don't get our cost structure down in hospitals, we will be all out of business, Dr. [indiscernible] and I were talking about this earlier.

And then the value payments are growing exponentially. It's -- right now, it's CMS will say 80% of their patients have a value payment. The total dollar is still relatively small. We're mostly fee-for-service, but that is growing hugely. And you don't just pivot a health system to say, okay, I've been feeding this fee-for-service piece for years and now all of a sudden, I'm going to put systems in place to manage total cost of care. I mean it takes many years to build those capabilities.

And so this web of well-being or these monitoring is a huge capability that we have to keep patients like Jim from being out of our ED every week and costing \$500,000. But I need technology to help do that and scalable technology.

**Unknown Executive**

Yes, I don't think I could have spoken better to the part of your question on the financial aspects. I'm grateful Peter took that. But let me take the second part of your question, which is sort of that spectrum of care going from the ICU to the non-ICU to the home. And why it's so important that we match the technology according to the patient's needs.

And that's really where the data aggregation and the risk ratification comes into play because it's not that every single patient is going to have an extremely high-end monitor system that will then be continued into the home is that we will know which patients do. And we will know how to use that information intelligently to keep them at home safely and I'll just build upon a comment that I made earlier. There is a study that shows that up to 40% of patients that are admitted to the hospital for treatment of congestive heart failure are not decongested by the time they go home.

So it shouldn't be any surprise to us that 1/4 of them are going to show back up again in the emergency room within 30 days, right? And so that's the opportunity there, where the technology really can give us those signals of the patients that are requiring our attention

so that we call the resources that they need to keep them well and the long that arc of recovery because really what -- that's what it is. It's all part of the same continuum. ICU, non-ICU and home.

And I just want to say one last thing because there was a threat of your question on the patient adoption side. And I can tell you, as a practice and cardiologist, my patients love their data. Almost whether I want to or not, they're going to bring it into the office, and they expect to comment on it.

And so even though today's sessions have sort of segmented, the consumer piece with the health care piece in my world, they're very much blended together because patients bring it into the office and they say, "Doctor, this is what I'm getting on my device. Can you tell me what this means?" And it can't be a situation where it's garbage in, garbage out. We need medical-grade sensors and technology in the hands of our patients. That's going to be a key differentiator in the future.

#### **Unknown Executive**

Bill, I just want to go one other piece that I was missing in my remarks. Besides getting our cost structures down, one of the laser focuses that we and the clinic and others are building a well care system that is as robust as a secure. Because as we take risk for total cost of care, as you all know, our health behaviors are 80% of our health spend, at least the modify behavior.

So environmental has a difference and no doubt people of lesser means have difficult time practicing those behaviors. But we know exactly what behaviors drive our spend. It's the dose of healthy food, the dose of exercise, the dose of sleep, the dose of social connection, dose of well care. So we have to have a way to drive those healthy behaviors because in the long run, that's by far the most cost-effective way to drive down the total cost of care and many of these technologies help do that.

#### **Unknown Executive**

So there's a number of factors there. The first is, if you can avoid being in a hospital because you don't need to be there, you're going to avoid exposure to risks like infectious risk. You're going to avoid problems like pressure ulcers. You're going to -- that are going to be a problem in the hospital. You're going to avoid centralized associated bloodstream infections, et cetera.

The next is patient acceptance. If you ask -- if the surveys have been done, would they prefer to have the care in their home or they prefer it in the hospital. And all aspects with except or those who are homeless, prefer to be at home as long as -- the home sometimes we could do a hospital for refuge but everyone else would prefer to have it at home.

The next is the affordability costs. And Bruce left at Hopkins has demonstrated now for two decades that care can be provided at home with less complications, at less cost and much greater patient satisfaction.

Now we bring the Masimo solution, so we can look at other populations of patients that now can have real-time accurate medical-grade, hospital-grade technology that is provided continuously to monitor those patients that are increasingly sent home. It didn't used to be that we would send somebody with the total hip, home, the same day that's happening now. And they're going to have some discomfort. They may be on opioids. We need to watch them and continuous pulse oximetry is the technique for that. Next question, please.

**Michael K. Polark**  
*Wolfe Research, LLC*

Mike Polark, Wolfe Research. A similar thread, focused on hospital at home. I mean the discussion here, the economic discussion was very much about cost avoidance, keep that patient well at home, prevent them from coming back. I guess kind of what is the state of revenue generation for this model today? Is there a reimbursement to provide these services in the home? What does that look like? What might have look like in 5 to 10 years? And what's the pathway?

#### **Unknown Executive**

I'll let Peter start with that one because there is reimbursement you referenced, but...

#### **Unknown Executive**

Yes, sure. Yes. So there's a number of different models. CMS has a program called Hospital At Home. So these are literally people who are admitted or would qualify for admission, and we either refer them there from the ED or more likely when they're already on the floor and get them out early. We get paid the same DRG, we would get in a hospital, there's a number of requirements like you have to provide food, yet we use paramedics because they're much less like more cost effective.

To give you an example, just the economics. In the hospital, we have a nurse might care for five or six patients, and there's data if they care for mortalities a lot higher. In these innovative models where we tend to deploy paramedics, we have one nurse who can care for 10 or 12 because we can scale paramedics, and we're now piloting those models in the hospital to say, do we get our cost out, but we can do it because they're all monitored with the Masimo technology.

So that has a very accretive margin. We maybe like 35%, 40% of -- on the Medicare DRG payment, and our efficiency is growing monthly because we're learning how to deploy them more effectively. The remote monitoring, which they're not in a DRG, we could bill for that. So they're -- they cover the monitoring fee, we largely get the benefit of that from our ACO and we have risk -- and -- or now when we do a televisit, we can cover the physician fees. And so it's a combination of putting a program of covering the physician time like if Dan's overseeing it, covering the nurses or staff time for doing the monitoring and then getting the upside on the downstream.

#### **Unknown Executive**

Just to add one other thing. We are still very much trying to figure a lot of this out. And with that Afib future clinic that I alluded to in my presentation, we have figured out some creative ways for the patients to share some of that cost with us as well.

For example, for that particular program, what we did was patients who had participated in it were offered a discount on the device, and they paid a subscription service at a nominal cost which covered the period of time of three months, where we had performed the procedure in the hospital, got them home the same day and then leverage the technology to make sure that they did well up until that standard 3-month follow-up. And so there are a lot of creative models there where in an affordable way, the patients are contributing to the cost of these programs.

#### **Unknown Executive**

Dan, just a great point. We're also working with payers and employers because and every commercial employer, they have the 2% of patients that are 40% or 50% of those costs like Jim and they do a horrible job and the same thing for the commercial insurers. The interventions vary by a Medicaid population versus commercial, but several innovative things where we're then taking a per member per month spend to say, could you manage these 1,000 patients for us like Jim that we would that we would deploy technologies.

**Matthew Charles Taylor**  
*Jefferies LLC, Research Division*

Matt Taylor at Jefferies. So I just wanted to ask, you seem like you're piloting a lot of really interesting programs. There's a lot of opportunity here to scale these over time. So help us understand exactly where you are with current state in what the future state could look like in three or five years, and how many patients could you go for monitoring now to at scale?

And which of the Masimo technologies would you be employing? Would you be using some of these new consumer things like the watches, the hearables how do you envision some of those playing into these telemonitoring programs?

#### **Unknown Executive**

Do you want to start with that one, Dan?

#### **Unknown Executive**

Sure. All of it. All the above. No, we -- these technologies are carefully crafted, designed and engineered, as I said, to be woven into the fabric of what we're doing. And so the use cases, which I don't want to say too much about all the things that we're doing for the future. But we have imagined a large number of use cases of a way of using things like the hydration index, which we spoke a lot about athletes remaining hydrated.

Well, patients with congestive heart failure are over hydrated. They need to be diurese. They need to have that extra fluid weight taken off of them. And so you can imagine the way that we can put together these pieces and the data aggregation and the predictive analytics and use this intelligently to manage, as I showed you in my presentation, a very large and growing number of aging individuals with chronic diseases that require our care.

#### **Unknown Executive**

I would say super insightful question because there's a lot to that and some reflections. Right now in the hospital at home, we have capabilities about to do 20 to 25 patients a day at any time. Those are hospitalized admissions. The reason though is because we did it as a pilot. So what -- because you probably have seen hospitals across the country are now exploding with influenza-like illness.

So we're ratcheting that up significantly. And that transition has been from funding it with like an ad hoc team of support some of the hospitalists, I have some nurses who are in our system operations center to now literally working on a business plan in the last couple of weeks to say we're deploying hospitalists, we're deploying nurses or ideally partnering with someone like Masimo who may have those staff, so you can do it at scale.

The remote monitoring at home, we, on average, might have between 20 to 40 patients a day. The -- we had previously separated before the W1, the acute monitoring that needed continuous from the chronic disease like heart failure and COPD, who people thought they were happy with just doing once-a-day spot check.

Now with the W1, we'll have one platform. As you can imagine, you can't scale like 5 different pilots. I mean you have to have one core technology that is a platform that you can plug in whatever devices that the need, but having three or four platforms just nonexistent. Where I would say we and other health systems is because these largely grew out of COVID, there was an enduring organizational structure that house them. They -- and so we've created that now.

Really, we have a Vice President of this approach and reports up into me that now coordinates this work there'll still be plenty of innovation. But I think the capabilities of having a platform that could meet all your needs that has peripherals that you could plug and play from the ICU to the home, whatever the patient's risks are, has been a great accelerate.

#### **Unknown Executive**

And modularity as well. If you look at the VSM platform the modularity there, that if you want just the ECG, you can have just the ECG. If you want to add in the blood pressure cuff, if you want to add in the pulse oximetry, those other capabilities that the idea that we have, the opportunity as clinicians to exercise our judgment to decide which patient needs the different components of that platform.

#### **Unknown Executive**

Great. And I might just add to that, that some of the barriers really are waiting for regulatory oversight approval. We have a number of devices that are ready. You saw the VSM. Once that is deployed, we can use that universally.

We have Radius PPG now, so it allows tetherless continuous real-time monitoring of patients in the hospital, but we would like to advance. So clearly, we have a number of devices, some of which we haven't even shown to you yet that are ready to come out there. So once we get those deployed, not only will we be able to use them in the hospital, but also in the home.

#### **Unknown Executive**

Bill, let me just add on the because you heard the similar thing to of all state to present. So most hospitals right now have tele on the floor and maybe intermittent pulse oxi like once a day, the nurse is worried about someone. And to Dan's physiology, this is his expertise. Most of the people we put on tele don't need tele. They need pulse oxi, like, by far, but we don't have it. So we put them on tele as that hopefully, it will pick up something bad happens, right?

And what we're seeing now is that when you monitor every patient on the -- with pulse oxi not only do you automated since and get those labor savings, you get safety. But when VSM come, I want to have to move up a person to a different unit to be tele. I can just convert any high standing floor bed to also be tele because it's just another box that I plug in, and it would it would help productivity and efficiency so much by integrating these, as you say, in a modular way.

#### **Unknown Executive**

And I really hate to linger on this question too much, but it really was a very insightful question. Just you're talking about humbling learning experiences. When I took over telemetry program, I learned that a lot of our gastroenterologists were putting patients on cardiac telemetry because they were concerned about people that have been a bit on the hospital with GI bleeding and one of the most sensitive indicators of rebleeding was when their heart rate went up again.

And if you think about that, to your point, Peter, there was a lot of misutilization of telemetry because we just didn't have the sophistication with our tools and with our sensors and with that data aggregation to really get the patients the level of monitoring and support that they truly need for their condition.

#### **Unknown Executive**

Okay. Well, great. I'm sure there's probably additional questions, but our time is up now. We'll be happy to take questions along the side. We really do appreciate everybody's attention. We had some really interesting insightful comments from both of these leaders. And so thank you very much.

[Break]

# Presentation

## **Eli Kammerman**

*Vice President of Business Development & Investor Relations*

All right, everybody. We are now ready to take an extended break, which will involve our group rotations. We're going to reconvene and here at 1:00, not 1:30 because we are running ahead of time. So we'll take a look at the rotations, and you'll see a colored sticker on your name badge that will correspond to this checkerboard on the screen here.

We've got lunch as one of the rotations and then we've got three product-related stations that you'll rotate through to learn more about our technologies. When you go outside this room through the wooden doors, you'll see a person standing there with a colored flag that matches the dot on your badge. Please follow those people around. They will take you on schedule through each of the stations. And hopefully, you'll learn a lot of useful information that will help you appreciate the great potential we have ahead. Thank you.

[Break]

## **Unknown Executive**

All right, everybody. Can you all hear me okay? Testing. Hello? Can you hear me testing, testing. All right, testing. Are we on? Everyone, please take your seats. We're about to reconvene. All right. Here we go.

Okay. Welcome back, everybody. We hope you enjoyed the product demonstrations as well as a nice hearty lunch. And now we're ready to go through the afternoon sessions. We'd like to start out with our President of Europe, Southeast Asia and Africa. This is Stacey Orsat. She'll come up and talk to you about sustainability and responsibility.

## **Stacey Orsat**

*President of EMEA*

You guys had a very nice lunch and visits around the building. I hope you guys enjoyed yourself. It's great to see all the interaction, and we really enjoyed speaking with you. So thank you very much for coming back in. I know there's a lot you want to still see out in the lobby. So I'm a Stacey Orsat. I work with our teams overseas in Europe, New Zealand, and I'm really pleased to be here to speak to you about our sustainability and responsibility goals. I love talking about this subject.

This area of Masimo is a great example of the fabric of Masimo. The sustainability and responsibility objectives we have are not because we have to or because the industry pushes us to, but it's part of who we are to always do better to lead by example and to find ways to improve life and everything that we do.

Today, I'm going to talk about two areas we're working to make an impact with our products beyond patient care. So with our products and our packaging initiatives as well as in our facilities that you've had a chance to see some of today. Now when we look at our products, I'm going to talk about our sensors and our cables. I'm going to talk about our instruments and the packaging that goes along with our products.

So let's start in the middle here, first of the instruments. So Bilal in his presentation as well as Dr. [ Cantlon ] talked about as well our instruments, having our pulse oximeters moving through to having even wearable devices. In the medical electronics world, just like in our electronics world, you guys have your phones, your iPads, your computers. So many things are obsolete from the day you have them. They end up in electronic waste around our world.

From the very beginning of Masimo, Joe's first [ product ] invented was the radical. The radical device was a pulse oximeter, but it also allowed for it to be a portable pulse oximeter, is a table pulse oximeter. It had connections to share data. It could be reused, it could be repurposed for different uses. The Root Connectivity platform is an incredible example of looking in a sustainable way to have a device that is not a fixed architecture, but can be repurposed, can be reused in so many different ways. It can be a basic pulse exhibitor.

With the open connectivity port, you can add in other medical technologies that are invented today or in the future. By changing the radical device on the front to Radius it becomes a fully wearable wireless monitor. It can even be upgraded to parameters to become a full hemodynamics platform, as Bilal talked about with LiDCO, with hemoglobin monitoring and a brain monitoring platform. It's an incredible, flexible device. It reduces environmental impact of electronic waste. It improves efficiency in the hospitals.



And as I saw during COVID, they allowed for devices to be repurposed really quickly as opposed to buying new devices that then again become obsolete. It's had a phenomenal impact on transforming health care and leading by example, the medical devices can be flexible, can be innovative and do not belong in the landfill.

Now let's look at sensors in cables. I brought a couple with me. These sensors are used on millions of people every day, millions. And we look at sustainability, we think about reuse, recycle. Those are our common phrases we look at it. What about refuse? Refuse, the status quo. This has been the status quo forever with pulse sensors. This long sensor goes in the when a patient is done their health care.

Joe and Bilal challenge their engineers to look at our product to do better for the patient first. Can we improve the accuracy of this product? Can we improve the light weight or the weight on the patient? Can we improve the profile of the sensors, it doesn't impact on pressure wounds. And the engineering team did an amazing job of making the RD sensor line launched in 2016 that allowed for a low profile, highest accuracy sensor for patient care, but the other impact was an 84% reduction in materials. You think about this in the garbage and this.

Now the health care world can say, we've always used this is what we need. This is what we must have. But the decision to refuse status quo to push the limits to improve quality, improve care and reduce dramatically the amount of plastics and copper has had a phenomenal impact on eliminating the use of materials.

Now that elimination also has led to reduce the box size. So in looking at the boxes of this product versus this product is a 44% reduction in the carton that has to be used. 11 -- 1.1 million square meters of box service reduction is like covering half a city in boxes, reduced in the last five years of having the RD sensors shipping, a massive reduction in paper.

That also pushed us to all of our sensor lines to eliminate the electronic instructions for use that go in the box. That paper was in every box has shipped out. We were able to reduce 11.5 million electronic instructions for you shipping around the world. It's not just the paper, it's the weight. Every bit of weight you ship around is fuel that has to be used to get it on a plane, on a train, on a truck and it impacts your environment at every stage. These types of initiatives are changing the health care landscape to not accept status quo and recognize that we can avoid using materials and we can avoid waste.

Now our team never settles there. So the next step was there's still waste, right? So we went from this to this, now what? Up to 2021, the end of 2021, over 400 customers agreed to participate in recycling program. So they already sent to sort of being collected by hospitals. They put them in collection bins. And our team then looked at how can we aid landfill waste.

So they partnered -- we partnered with a company who salvages the product. So the RD sensors come in. They're brought to a salvage company. And the question was, what can we do? How can we salvage this? The end answer was 100% of this can be salvaged. This is put into a shredder. It is shredded down to the plastics and copper components that are then separated and able to be used for other -- making other products in the world.

So reduce the need for materials from this to this, but bring this back in and have zero, zero impact on the landfill with the sensor. We now have more customers around the world moving to our RD sensor. We anticipate that we'll have 25% more users of RD sensors at the end of 2022 versus 2021, and the impact on our waste is profound. So that activity, the RD sensor activity and the avoidance of this to this has resulted in 1,100 metric tons of material use avoidance. So complete avoidance of material use.

With the recycling I talked about the salvage and other initiatives we have 100 metric tons of waste diverted from landfill and the time we've had the RD sensor line. What does that mean more practically as well when we look at some of these initiatives, when you look at the electronic instructions for use, reducing those or limiting those from our sensor boxes, 13,000 trees are saved. And the production of paper, of course, is not just the paper, it's the water.

Most things we produce in the world use a lot of water, 35,000 cubic meters of water saves. When you think about a person, we use about 3 liters of water a day. And we use 5 or 10 trees a year for oxygen. That is a profound impact on thousands of people saving that water and saving those trees. Now if we go beyond our products to our facilities and where you are today, we're really excited to have you here and up until not long ago, I think it was the only funny place in North America here today.

So we're able to enjoy and experience some of the important features of our facilities as well that contribute to the environment. 24 electric vehicle charging stations are here at our offices and our other offices around the world have electric charging stations as well that you may have experienced.

Our roof is part of our environmental footprint. So some of you may have seen pictures of our roof. When we acquired this building, it had solar panels on the roof. We have upgraded those. There are 2,500 solar panels on the roof, 225-kilowatt panels that produce over

1 million kilowatts of energy that allow us to have 35% of our headquarters energy reduction coming from our roof. Our roof also can have a negative impact on the environment.

Roofs are hot. So on our roof, we have a cool roof technology to reduce the heat impact on our neighborhood, ensuring that we're having a positive impact on our community around in the neighborhood as well. Also, water. There's recuperation of water salvaging of water for irrigation, for our pond, for our gardens to allow for water to be reused in our building and we have low water use toilets and other assets in engineering that allow for lower water use as well. That has allowed us to have the Water Star certified program here. And it's not about how of the certificate. It's about showing that this is possible, that it's easy to do if every company puts their mind to looking to initiatives to save water.

Now as well on the paper side, a huge amount of effort to avoid paper. Even today, you received very little paper. But where we have paper, we continue to recycle that paper and reduce that impact as well.

Now there are over 40 initiatives for sustainability around the world, and that list is growing all the time. These are only a few examples. They're in our sustainability report from 2021, and we look forward to sharing the results of our efforts at the other '22 as well. With these efforts, like I said, they don't come from corporate mandates, they come from our team. And I want to talk to you about our team are really excited about the team we have around the world who bring for these initiatives.

We are very lucky at Masimo that our average retention is 5.5 years. And in fact, we have over 20% of our employees who've been with the company for over 10 years. In our employees, 34% of our employees are women, and 26% of our leaders at Masimo are women leaders. We also have 47% of our team and 34% of our team members are racially and culturally diverse backgrounds who make up our Masimo team. We're incredibly proud of this team and all they bring to us, to challenge us to do better every single day to make sure that our goals that come from our consumer business, the vision that you saw from Blair from [indiscernible], from the doctors who share the application that we take that one step further every day to improve lives in everything that we do.

I want to thank you all for being here. If you have ideas for us and how we can improve the environment. We welcome those, and I want to thank our leaders for challenging us to improve life. And at this time, I want to invite Micah Young, our Chief Financial Officer, to come up and present the next part of our agenda. Thank you very much.

**Micah Young**  
*Executive VP of Finance & CFO*

It's great to be here with you guys today. I appreciate you guys coming all the way out here. I know last investor day, I think back in 2019, it was a rainy day. Today, it's a bit cold, but glad you made the trip out. I also want to take a minute to say thank you to the whole Masimo team, the production team. There's a lot of workers behind this. So just a round of applause for the entire team.

All right. So if you can't get excited about some of the things you're seeing today, then I don't know what you can get excited about. The product demonstrations, the presentations earlier, I hope you enjoyed all of those, and you're starting to see how everything is coming together, how it's weaving together and seeing the vision that we have here at Masimo.

I'm going to jump into our financial overview and outlook. Before I get started, I want to just remind everyone that -- all the financial measures I'll discuss today are going to be on a non-GAAP basis as well as they will include financial -- pro forma financial information that includes financial data from -- prior to the acquisition of Sound United. So just remind everybody to go look at our GAAP to non-GAAP reconciliations. They'll be in the back of the presentation that we just posted with an 8-K this afternoon.

All right. So jumping right into it. One thing we like to do is even before we get into our long-range outlook. I want to look at how we performed against the commitments we made 5 years ago. If you look at our back at even the Investor Day back in 2017, we set out goals to grow revenue by 8% to 10% on an annual basis. You can see here, we actually exceeded those goals. We delivered 14% average growth over that period from 2017 to 2011 and looking at really comparing the actual performance to the commitments we put out there. A lot of that growth was achieved through robust growth in the installed base. We saw a really rapidly growing installed base. COVID, we saw a strength where a lot of customers really turned to us during a time of need.

And if you look at that, we had record levels of contracting. You've heard us talk about that here more recently in the past couple of years, we've seen a record number of customers convert over to Masimo. And that's really -- that really demonstrates the power of our innovation. And the innovation in this business, the ability to continually innovate and market set there's no devices today that can serve those markets even to drive that kind of innovation and be able to really invest in the R&D to drive growth in this business. You're seeing that play through in the last 4 years.



Now turning to our earnings growth. We committed to or provided targets of about 12% to 15% earnings growth. Over the last -- if you look from 2017 to 2021, we saw earnings growth of 12% to 15%, and we saw very strong leverage in the business, and I'll show you that on a couple of more slides, but we delivered 23% growth over that time frame. There are some other things that we laid out. We laid out some growth targets by revenue category. If you look here, you can see SET, rainbow, hospital automation and other advanced parameters, and then you can see the total revenue targets that we laid out.

In the green are our growth targets. So if you look at SET, 6% to 8%, we also had an upside case there, and we exceeded that for our SET pulse oximetry. Rainbow, we had a 10% growth target. We exceeded that growth as well, but fell short of the upside case. We -- as you know, we try to push ourselves internally, and these were some of the upside cases that we were putting out there for those products. Hospital automation and other parameters, we had a 20% or better growth rate for those products, and we delivered, as you can see here, well above 30% for those over that period of time, almost nearly 40%. But total revenue, as I mentioned before, we actually came in line with that upside case and delivered significantly higher than the 8% to 10% growth that we set out for.

If you look at the next slide, turning to margins. We had a margin target of improving our gross margins by about 50 basis points per year. Over that period from the 4-year period there, you can see that we -- that target was about 200 basis points, and we fell a bit short of that. We felt we delivered about 160 basis points of improvement. As you know, during the last few years, we've seen supply chain challenges and also some of our product mix has even shifted more towards some of our equipment, and that's driven some pressures on our gross margins. But still very strong performance, but we fell a bit short there.

Through balanced reinvestment but also just very disciplined management of expenses. We were able to still deliver on our goal for operating margins. Operating margins improved 520 basis points over that period, and we committed about 100 basis points per year. If you look at one of the most Important things is we've really been able to drive some improvements here. Like if you look at our SG&A spend as a percentage of revenue, we've taken that down from 36.8% to 30.9%. So about nearly 600 basis points of improvement in our SG&A. And that's allowed us to really reinvest that back into R&D and drive further innovation. And that's why I think you're seeing the results and the top line growth of this business because of the investments we've been making. And you're seeing the fruits of that labor come out and all the products that we're showing you today. And I think that's important to see that innovation live and go through some of these demos.

We've been able to increase R&D from 8.8% to just over 11% increase of about 230 basis points and still deliver on our operating expense targets, which would have been about 50 basis points improvement per year, 200 total basis points, and we've dropped that by about 370 basis points. Now turning to what you've all been waiting for.

So our consolidated revenue guidance range for 2023, we're looking at \$2.330 billion to \$2.4 billion for next year. And I'll break down more of the -- of those categories underneath it by segment. It includes -- now that we've worked through the planning process, we're estimating about \$64 million of currency headwinds. And that represents on a constant currency growth basis, about 6% to 8% growth organically.

Now turning to our health care revenue. Our Healthcare revenue guidance range is \$1.420 billion to \$1.450 billion. That includes about \$22 million of currency headwinds. And we're guiding to about 9% to 10% constant currency growth.

All right. Looking at the next -- turning to our nonhealth care revenue, \$910 million to \$950 million is the guidance. That guidance includes or incorporates about \$42 million of currency headwinds, and that represents growth of about 2% to 5% next year. And we're -- as you know, we're being very thoughtful about the macro environment right now, and we feel like we're putting forth a more conservative view of the guidance as we look into next year.

All right. 2023 operating profit guidance, \$360 million to \$375 million, and that includes about \$32 million of foreign exchange headwinds for the year. 2023 EPS guidance, \$4.25 to \$4.45 per share with about \$0.44 of foreign exchange headwinds, about 10% currency headwinds that we've got incorporated. All right. So now turning to our financial outlook. As we look beyond 2023. Consolidated revenue growth, high single digits, 7% to 9%, and I'm going to go through the segments here in a bit. Operating profit dollar growth, 10% to 12% and EPS growth of 10% to 12% for beyond 2023.

All right. Looking at how we're going to drive the leverage earnings growth. If you look at the revenue growth, 7% to 9%, 10% to 12% earnings growth, we're going to drive through several initiatives. And a lot of these initiatives are ongoing, but there are some new initiatives that we have in place as well. If you look during the last several years with some of the supply chain challenges that many companies have faced where we face them is really being able to get a consistent flow of raw materials from vendors and also other supply chain bottlenecks throughout the process. If you think about it, getting that consistent flow allows us to really avoid expediting freight. We've seen a lot of higher freight costs as a result of that -- get the products inbound go through our manufacturing

processes, which has created a lot of inefficiencies for us because it creates a bottleneck in the process as we're trying to work through that and get it to the customer. And then on the back end, we're having to expedite that to the customer.

So there's a lot of different things that are impacting our margins today. We plan to continue to streamline and get after some of those supply chain inefficiencies. We also want to tie in and go after manufacturing scale, productivity and drive more efficiency throughout our manufacturing and supply chain. The team is continually focused on driving product cost reduction. This has been an ongoing initiative for the company. We design for manufacturability and trying to make things as streamlined as possible and reduce costs. Stacy showed you some of the product earlier that -- with the RD sensors, where we've taken a lot of the excess waste out of those sensors and been able to reduce some costs of those products over time.

We also have procurement initiatives and going -- continuing to go direct in key markets with customers, and that helps us to drive additional margin improvement by getting that end customer pricing. Next one is sales force productivity. This is an ongoing initiative. Our team has done very well. And you've seen that through the leverage we've had in our SG&A spend over time is really as we put out more and more product and more and more innovation, we've got sales reps who have a lot more things to sell that are more in the portfolio, and that enables us to really drive more revenue per rep, and they've done a great job of really being efficient there. So we're continuing to do that. And then, of course, leveraging our back office and G&A spend.

If you look at the next slide, as you think about the growth in the business, and you can see here in the black boxes, you can see our health care business going from \$1.4 billion, \$1.420 billion to \$1.450 billion is where our estimated range is next year. That's growing 9% to 11% per year. And then you can see our non-health care business growing mid-single digits there out into -- over the next 5 years. And our consolidated revenue, you can see the critical mass we're starting to get into our revenue and our earnings. And here, growing consolidated growth rate of 7% to 9% per year.

This next slide shows the cash-generating power of the business. If you look at our adjusted EBITDA. We're around \$500 million is what we're estimating for next year, and that will be growing 10% to 12%. You can start to see the power of our ability to generate cash as we move forward. And this is on a very large scale if you think about how big this business is in that kind of growth.

Next, we're going to turn to -- you can see the mix of our health care business here. This is the revenue mix. And you can see we're set just over 75%, as we're estimating into next year, Rainbow over 10%. And you can see the breakout of some of those other categories. If we look at the revenue growth contribution, we start to break down the 9% to 11%. And -- the first category, of course, being set. With that being 2/3 of the business growing 6% to 8%, that contributes about 4.5% to 6.5% to our growth rate over the long term. We also have rainbow, which is growing at 10% in our long-range plan. And that will contribute about just over 1 percentage point to the overall growth rate of 9% to 11%. Then you add in NomoLine Capnography, SedLine, O3 brain function monitoring. And then hospital automation, each of those are contributing nearly 1 percentage point each to our growth rate.

And then the last piece is some of the new products. As we start to size up, you've seen the market sizing of some of these new products and where we're going. Telemonitoring, a very big market, over \$30 billion -- over \$20 billion market that Bilal mentioned earlier. You also have wearables. And wearables is over a \$50 billion market that Blair mentioned earlier in his presentation. And then hearing enhancement. This is the cat where we put the hearing enhancement category. That's over a \$30 billion market within the \$85 billion hearables market. So we're entering into some massive new markets where we can take and really drive a lot of these new consumer health products. And it's pretty exciting to see the opportunity we have ahead. And that, we believe, is going to contribute at least 1 percentage point to our growth rate.

That contribution is coming from mainly right now. We've got incorporated W1 in STORK. And as we launch new products, we'll start to bring those into our long-range forecast. Total revenue growth, 9% to 11% and the size of those markets, when you combine those over \$110 billion when you start to bring in telemonitoring, wearables and hearing enhancement.

Now I want to break down our nonhealth care segment. If you look at that, you start to look at the revenue mix on the left side here. 95% roughly is home audio. You can see there. About 5% of the business is headphones, which is in a very rapidly growing side of the market. And then you see the breakdown of different components of home audio. And you've seen a lot of those things in the demonstrations today. You got the experience, some of the home audio and those -- that type of equipment.

If you look at home audio, Blair mentioned that being a -- over a \$6 billion market for premium and luxury home audio. That's grown 3% to 4% with being a majority of the business that contributes 3% to 4% to the growth rate. Headphones. Headphones are part of that \$85 billion hearables market that's growing rapidly. And that represents about \$55 billion plus in terms of total market opportunity. And that's growing -- we have that growing at 25% -- over 25% and this will become a big growth driver for this business moving forward. That gets us to 4% to 6% growth. And this growth, we believe, represents market-leading growth in these categories. And

we're excited to bring the team on. You can see the power that it's going to bring to the consumer channel, and that's what I'm going to talk about here shortly.

If you look at the new product launches, we've talked a lot about these new products. You've seen the demos. We've got a lot in store for wearables, which is a massive market growing. It's a \$50 billion market growing double digits. We're going to be launching STORK baby monitoring, the B1 bands as well as Masimo W1 and freedom in that category. We're also going to be launching more and more in the hearables. As I mentioned before, Sound United, with that acquisition, they brought forth a lot of experience in the hearables market with the headphones. And now we're going to take and combine the signal processing capabilities of both organizations and really leverage that engineering power and also leverage the adaptive acoustic audio or adaptive acoustic technology for hearing enhancement devices as well.

The last one is telemonitoring. If you look at telemonitoring, as I mentioned before, over \$20 billion total addressable market, Bilal mentioned some of the things that we're launching there with -- of course, we're in the process with W1. We have Radius PPG as another option as a wearable. And then we have our home health kits. And then there's all the things that we're doing from a software and data management capability as we move into the home.

If you look at all these markets coming together, I mean, we have a tremendous opportunity here as we are expanding our total addressable markets by nearly 20x what they are in the traditional hospital space. You can see there with home audio premium luxury, hearables, being an \$85 billion combined market there, wearables and then telemonitored.

So now I just want to kind of recap through talking more about the acquisition, the power of this acquisition is it provides immediate critical mass for what we're doing today and all the things that we're showing you today with new products, all the things we're coming out with consumer health. And also it plays a key role with our future of telemonitoring and I'll talk to you about that in a minute.

If you look at the consumer channel and infrastructure, Masimo is a stand-alone business. We had a very -- we had a limited consumer channel and infrastructure. It would have taken us multiple years and significant investment to be able to build out the capabilities that we have through this acquisition. If you look at the combination of the companies and bringing on the Sound United team, we've now have immediate access to over 20,000 points of retail distribution.

We have a team of over 450 consumer sales and marketing members globally that have not only retail distribution experience, but also a direct-to-consumer marketing expertise. And that is a powerful thing, and that would have taken us a long time to build out. We also -- as you think about Masimo's brand, we're a trusted brand in the hospital. But we have limited consumer brand recognition today. This gives us immediate access to over 200 years of consumer brand heritage and it also gives us the ability to leverage those premium and audio brands. Think about where we showed earlier the Denon earbuds with the Masimo AAT technology. Being able to bring that brand name to great technology is going to give us a head start in these channels and really optimize the opportunity we have to win in this space. And it's a massive hearables market. It's over \$85 billion market. And we had no products in hearables today. We had a lot of development in the works. We are developing technologies. We had our signal processing and, of course, bringing along adaptive acoustic technology.

But Sound United has been in the space for a while. They've -- it's been a rapidly growing business for them. They've got the expertise in that market to be successful. And -- that gives us the ability to leverage our Masimo AAT technology. The next one is we also gain immediate access to a large network. If you think about it today, even during COVID, we -- if you look at the home health hubs we have with Masimo SafetyNet and being able to connect to clinicians, connect through the cloud back into the clinician's office, that's less than a 1,000 home health hubs today.

With Sound United, as Blair mentioned, we have the ability now to connect that platform through HEOS. We have over 3.4 million connected devices, growing about 500,000, 600,000 a year. And those will soon be capable of acting as health hubs by the end of this year. So that gives us that rapid start for what we're wanting to do with creating telehealth systems in the home, being able to access through the cloud in a bigger way, connecting data and connecting patients back to their clinicians.

The next one is engineering power. I think you probably saw a slide from Blair earlier that showed Masimo engineers today about over 450. Now we're adding 375 engineers from Sound United. So we have an engineering powerhouse with over 825 engineers combined. And that gives us the ability to leverage that engineering power for more products that we can roll out and continue to innovate both in the hospital as well as going after those large consumer health and telemonitoring markets.

And last but not least is really the financial impact. When we looked at -- we evaluated a lot of things through the process, a lot of companies looked at partnerships. We looked at all of these different things. And what -- and you can see where this company, this

acquisition checked the box on a lot of areas that were important for us. We absolutely needed to have immediate access to a large channel. We've been investing in all this innovation for years.

Bilal showed earlier where the wearables, and Joe mentioned it that technology goes back a long time, and we've been developing that for many, many years. And to see that evolve and now we're ready. We have a product immediately today to go to market within the next year. So we needed that channel to really successfully launch these products that we think are going to be impactful to many out there as far as consumers and patients around the world. If you look at that, that would have taken a heavy multiyear investment for us to establish the infrastructure we needed to be successful. And that would have diluted our earnings for multiple years.

But what we found was a company that had all the majority of the things we were looking for, and it was a reasonable valuation, 1x revenue, 8x EBITDA, and it gave us immediately accretive earnings. And the biggest thing here for us too is it provides significant upside optionality. We've made the investment in R&D. A lot of that's in our run rate today as far as all the things that we're doing. We've made the investment in the acquisition that gives us the channel, gives us the breadth and it also gives us access to those telehealth opportunities. And now we have huge opportunity. It's upside optionality to promote new products that we're rolling out, all the things you've seen today, and it's a lot of that upside optionality is something we couldn't capture if we wouldn't have done this acquisition. I'm going to turn to the next slide here and show you what you've probably all been waiting for is some of the time lines.

So if you look at this acquisition, too, it accelerates our time to market by giving us that channel. We would have probably had to trickle out products over multiple years without being able to drive the success in those launches. So if you look at STORK and you can see here some of these timetables we're -- that really represents how we're finalizing the launch of those products. And within that range of time is when we expect to launch these products. So if you think about STORK by middle of next year, MightySat VSI, this is our next-generation MightySat. That will be middle of the year next year as well as Radius T [ disposable ].

And then we got hearables with AAT. That will be a second half of the year launch. B1 and Freedom will be second half to late next year. And that will be also combined, and we are going to ultimately launch W1 into that channel. And that will give us a multitier strategy as you think about pricing with Freedom being up more the luxury type premium luxury type pricing. You've got W1, and then you've got all the bands for sleep and fitness that would be more of a mass consumer -- it will reach more consumers in terms of pricing. So we're excited about all these product launches that are coming, and it's going to give us tremendous opportunity to drive upside. And these are not all the products we're launching, keep in mind, but we want to highlight some of the key products that are going to go -- that are -- that really are consumer health products that we'll be launching within the next 12 months.

This next slide shows how we build up how you think about the buildup of the 7% to 9% growth. And you can see here where we're -- we've got the professional health care. We've got consumer non-healthcare and then consumer health. And that gets us to a buildup of 7% to 9% growth, high single-digit growth. But all these things we're doing, we have tremendous upside optionality to deliver significantly higher growth. This could change the trajectory of this business.

And again, I'm not committing there. But the upside is tremendous. If you start to look at what this could do for the business. It could take us to a new growth trajectory if a lot of these things are successful. And that's pretty significant when you think about the size of the revenues in the business, and we talked about the size of the earnings together.

The last piece, I just want to recap. Our goal is to deliver sustainable revenue growth. And if you look at our plan, high single-digit growth, 7% to 9% combined, and we're going to do that through market-leading performance of our core businesses. When you think about the consumer audio, the traditional health care business. And then we have a lot of upside optionality to capture. And we plan to make the right investments as we move forward and balance reinvestment within what the guidance we provided to really capture that upside optionality and hopefully drive significantly better results than what we're even targeting today. And then, of course, leveraged earnings growth.

If you look at our long-term outlook, we're providing 10% to 12% earnings growth. We're going to do that through driving gross margin improvements, continue to leverage operating expenses and balancing reinvestment to support those new product initiatives and that will help us capture the upside as well as continue to deliver sustainable revenue and earnings growth as we move forward. And that's it. I'm going to wrap up there, and I'm going to have Joe come back on stage. So welcome back, Joe, our Chief Visionary Officer, our founder. Thank you.

### **Unknown Executive**

Thank you, Micah. I hope you guys like the punchline. As I put it, Micah, I had the funds up to report. I hope you guys enjoyed the product demonstrations got a chance to stretch your legs. I appreciate you being here since 7:00 in the morning. So some show of hands, who enjoyed seeing the wearables the most, W1, Freedom, all right. Who enjoy seeing the baby monitor, STORK the most.

Wow, okay. Baby is coming. Who enjoyed sepsis index, hydration index out of the business the most. All right. All right. And who's going to watch the great Showman when they get home.

Great. All right. Well, I really, really want to just emphasize a few things. When we were developing W1, we got some signals that told us to go faster, go harder, take more risk. One of them was the market. The market used to be for electric cardiography at home. It changed the Photoplethysmography at home. It changed the pulse oximetry. Pulse oximetry became a whole name, a household name because of COVID. And you saw how we're about to do continuous arrhythmia analysis with this partnership with iRhythm because nobody else has continuous PPG like we do that can really bring out continuous arrhythmias instead of thinking you may have something you press a button to try to detect something. We also got the signal from everybody who's trying to help during COVID from major companies like, I don't know, Verizon, AT&T, they were calling us saying, "We want to work with you because you're the only real thing. Everything else was vaporware."

And to date, they still are vaporware. And we got to see some of those things come out in haste. And when I got a chance to get a demonstration of W1, this is one of the other important signals. You saw the difference between Nellcor and Masimo. You saw the difference between Apple and Masimo. It is greater than I expected. I knew we're going to work well because of our core technology and our incredible team, but I didn't expect it to work so well. I've seen it help detect problems with loved ones in my life. And that told us something. And by the way, that extra improvement in accuracy and performance, the continuous accurate measurements matter. Think about how until Masimo set came to market despite pulse oximetry being ubiquitous. There was not one outcome study that showed pulse-ox made a clinical difference. Not one, yet post the delivery of Masimo SET. There are now 4, 5 areas where pulse-ox made a clinical difference, reduction of retinopathy of prematurity, detection of CCHD in newborns, helping save lives from people suffering from opioid-induced respiratory depression, helping save lives for people at home at COVID.

So I really believe this extra accuracy, this continuous capability will matter. And if we didn't introduce it, a lot of stuff that's out there would look like, well, what does it do? It's not doing anything for me. So I'm really, really excited. I have to tell you, the future looks fantastic. We have this incredibly talented team, nearly 10,000 people now. We have this incredible revolutionary technologies from W1, E1, Sepsis Index, Hydration Index, SET, of course, Rainbow. We have Radius VSM. We have hemoglobin route. We've got an incredibly great hand. And we intend to do our best to make the most of it. We intend to usher in 22nd Century Healthcare. We have the critical mass already and there's a lot more.

We showed you some stuff until the end of next year. There's more, more that we believe will complete this picture from hospital to home back to hospital back to home. That circle is critical. I mean you've heard Dr. Pronovost, Dr. [indiscernible], which I'm grateful for. These guys are iconic clinicians in the U.S., if not worldwide, come to you to tell you how important these things are, and what it will mean to not only survival of hospitals, but to survival of people and getting that care at the best place they could get the care for at home.

So you stuck with us for so many years. Please stay with us longer. We've got a great, great future ahead of us, and we're going to see this through. So thank you so much. I hope you have a safe journey back home. Thanks for being with us. Thank you.



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# EXHIBIT J



IN THE U.S. DISTRICT COURT  
FOR THE DISTRICT OF DELAWARE

APPLE INC.,

*Plaintiff,*

v.

MASIMO CORPORATION and  
SOUND UNITED, LLC,

*Defendants.*

C.A. No. 1:22-cv-01377-MN

**DEFENDANTS MASIMO CORPORATION AND SOUND UNITED, LLC'S  
RESPONSES AND OBJECTIONS TO APPLE'S INTERROGATORY NO. 1**

Pursuant to Rules 26 and 33 of the Federal Rules of Civil Procedure, Defendants Masimo Corporation and Sound United, LLC (collectively, "Defendants" or "Masimo") hereby respond to Plaintiff Apple Inc.'s ("Apple") Interrogatory No. 1.

**GENERAL STATEMENT AND OBJECTIONS**

Defendants assert each of the following General Objections to each of Apple's instructions, definitions, and interrogatories. In addition to these General Objections, Defendants state specific objections to individual interrogatories, including objections that are not generally applicable to all interrogatories. By setting forth specific objections, Defendants are not limiting or restricting these General Objections.

1. Defendants object generally to Apple's definitions and instructions to the extent that they fail to comply with, or impose obligations in excess of, Rule 33 of the Federal Rules of Civil Procedure and the applicable Local Rules of this Court. Defendants will respond to the interrogatories in compliance with the Federal Rules of Civil Procedure and the Local Rules of this Court.

2. Defendants object to Interrogatory No. 1 to the extent it seeks information that is neither relevant to any claim or defense in this case nor proportional to the needs of the case. By responding to this interrogatory, Defendants do not concede that the information sought by this is relevant or proportional.

3. Defendants' responses are made without, in any way, waiving or intending to waive, but, on the contrary, intending to preserve and preserving:

- a. The right to raise all objections as to relevance and admissibility with regard to any information or documents identified, provided, or produced in response to Interrogatory No. 1, which may arise in any subsequent proceeding in, or the trial of, this or any other action;
- b. The right to object to the use of the information or documents for any purpose, including without limitation their use in any subsequent proceeding in, or the trial of, this or any other action; and
- c. The right to object on any ground at any time to interrogatories or other discovery relating to information and/or information or the subject matter thereof.

4. Without waiving the specific objections set forth below, and subject to the limitations and General Objections set forth above, Defendants provide the following responses:

### **RESPONSES TO INTERROGATORIES**

#### **INTERROGATORY NO. 1:**

Identify all of Masimo's (including Sound United's) actual and planned channels for distribution or sale of the W1 in the United States.

**RESPONSE TO INTERROGATORY NO. 1:**

Defendants object to this interrogatory because it seeks information that is irrelevant. Subject to the foregoing general and specific objections, Defendants respond as follows:

Masimo currently sells the W1 directly to consumers and, outside the United States only, to professional medical caregiver customers such as hospitals. In the future, Masimo may sell the W1 to consumers through distribution channels it was using before acquiring Sound United (e.g., Amazon). [REDACTED]

[REDACTED]. For example, the W1 is not sold at brick-and-mortar stores such as Best Buy. [REDACTED]

[REDACTED]. Pending regulatory clearances, Masimo plans to also sell the W1 directly to professional medical caregiver customers in the United States. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

January 11, 2023

KNOBBE, MARTENS, OLSON & BEAR, LLP

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**CERTIFICATE OF SERVICE**

I hereby certify that on January 11, 2023, a true and correct copy of the foregoing document was served on the following counsel of record at the addresses and in the manner indicated:

***VIA ELECTRONIC MAIL:***

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January 11, 2023

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